

# **FY 1999 NATIONAL OPERATIONS' ANNUAL REPORT**

## **Internal Revenue Service Criminal Investigation**



**“... CI is an organization of dedicated, talented, and hardworking individuals who carry out their law enforcement responsibilities in a professional manner...”**

**The Honorable William H. Webster**



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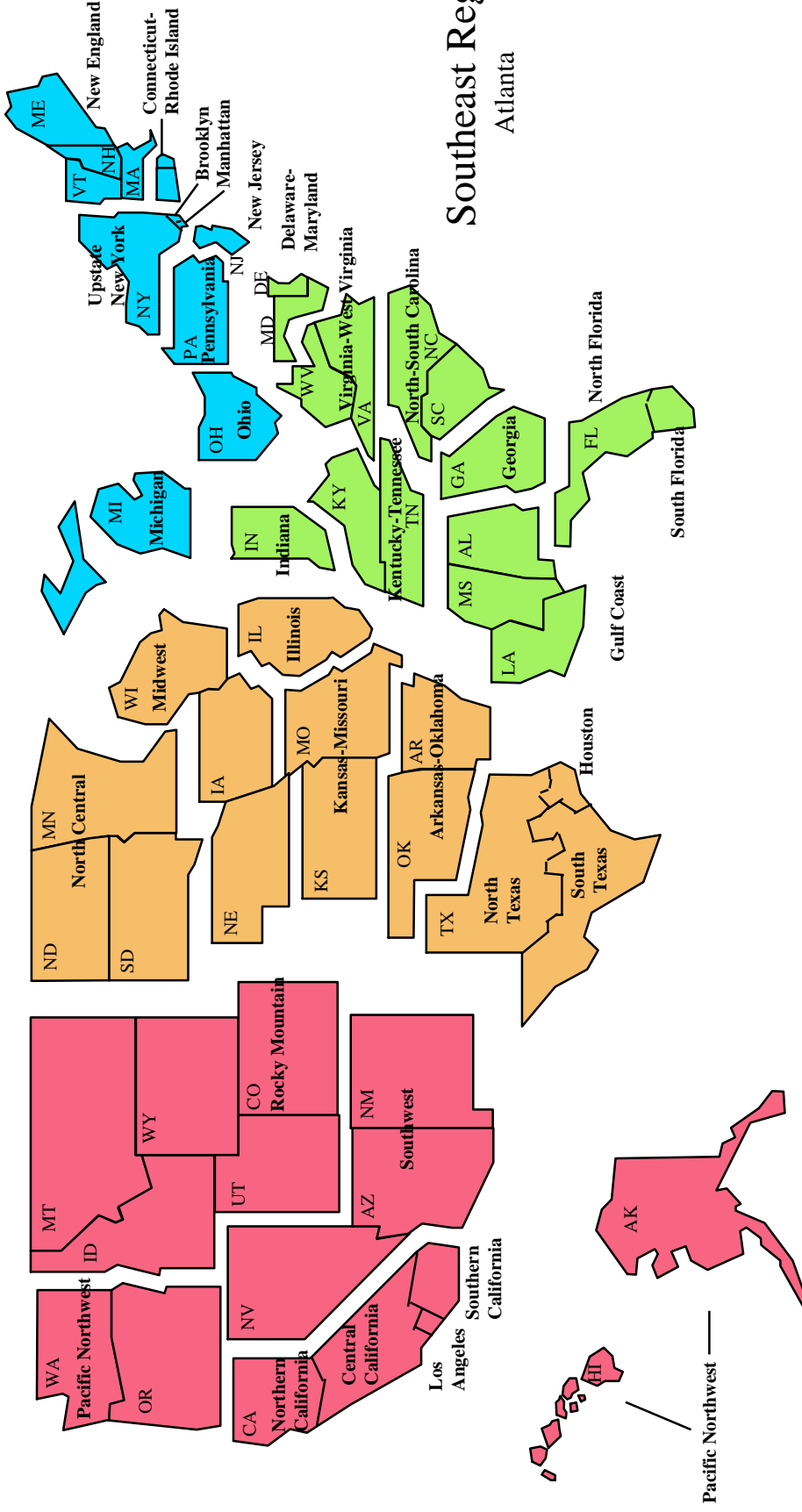
# IRS Regions/Districts

**Western Region**  
San Francisco

**Midstates Region**  
Dallas

**Northeast Region**  
Manhattan

**Southeast Region**  
Atlanta



## Chief's Message



This has been a year of transition for Criminal Investigation (CI). There has been a comprehensive review of operations, the development of an interim compliance strategy, and the continuing development of a new organizational structure. Collectively, these events provide the impetus for CI's future success.

In April 1999 Judge William H. Webster issued a long awaited review which reaffirmed that "CI is an organization of dedicated, talented, and hardworking individuals who carry out their law enforcement responsibilities in a professional manner."

This reaffirms what we all know to be true. I congratulate our employees. No law enforcement agency can function effectively unless it manifests these qualities. Your dedication and professionalism are a credit to the Internal Revenue Service (IRS).

The Webster Report emphasized the continuing importance of our mission. Criminal Investigation is the criminal component of the IRS charged with supporting the fair and impartial administration of our tax laws. Our principal role is to assist the Commissioner in establishing a comprehensive compliance strategy then vigorously implement it by ensuring that our resources are effectively utilized to foster confidence in our tax system and compliance with the law.

Criminal Investigation has and will continue to make valuable contributions to law enforcement. However, we are the only organization that can investigate criminal violations of the Internal Revenue Code (IRC). No other law enforcement agency has our unique statutory authority or investigative skills. It is incumbent that all recognize that if CI fails to do its job effectively, no other agency can!

The Service is in the process of developing a comprehensive compliance strategy. Given the inherent size and complexity of our economy this will be a formidable task. Until this strategy is formulated, CI has adopted an Interim Compliance Strategy. This strategy is divided into two major parts. The first part is the CI program strategy which is comprised of three interdependent programs: Legal Source Tax Crimes, Illegal Source Tax Crimes, and Narcotics Related Tax Crimes. These three areas are mutually supporting, and encourage full utilization of all statutes at our disposal, makes effective use of the grand jury process and all enforcement techniques to combat tax, money laundering, and currency violations.

The second part of the Interim Compliance Strategy is the investigative strategy. The investigative strategy component provides the field with specific guidance related to national program areas, priorities and emerging areas of fraud. It enables CI to provide timely guidance on investigative priorities to our field offices prior to the beginning of each fiscal year.


This guidance can be modified as needed at any time, permitting CI to quickly respond to changes in compliance priorities, issues, and financial crime trends.

Criminal Investigation's design team is working diligently to develop a more efficient and effective organizational structure. Adopting the recommendation of Judge Webster (and many others), CI will soon be a separate line organization within the IRS, reporting directly to the Commissioner. Headquartered in Washington, DC it will be staffed at all levels by CI personnel. Headquarters will formulate policy, direct, guide, and support field operations.

Criminal Investigation field offices will be aligned with the boundaries of the Federal judicial districts to enhance cooperation with the United States Attorney's Offices. It is currently envisioned that six area managers will oversee the 35 Special Agents in Charge directing field operations.

Efforts are also underway to reorganize Chief Counsel Criminal Tax (CCT) along similar lines as CI. This will enhance CCT's ability to provide timely assistance as legal questions arise during investigations.

I am extremely optimistic about the future. We are a proud, dynamic organization, with a record of professionalism and achievement that every citizen can be proud of. The best is yet to come!

A handwritten signature in black ink, appearing to read "Mark E. Matthews". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark E. Matthews  
Chief, Criminal Investigation



## GLOSSARY

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**Avg. Months to Serve (w/Prison)** – Average months to serve for persons sentenced to imprisonment.

**Avg. Months to Serve (all Sent.)** – Average months to serve for all persons sentenced.

**DET/DIT** – Direct Enforcement Time/Direct Investigative Time. Time expended by agents on protection details (assault, building, personnel and dignitaries); Secret Service security details; special assignments to Regional or District Counsel; Freedom of Information Act (FOIA) requests and other. It also includes time expended by agents in conducting investigations and on other law enforcement activities.

**ELF Fraudulent Refunds Deleted** – Dollar amount of refunds not issued for electronically filed fraudulent returns.

**ELF Fraudulent Returns Deleted** – Electronically filed fraudulent returns where refunds were not issued.

**HIDTA** – High Intensity Drug Trafficking Area.

**HIDTA/OCDETF** – Multi-agency task force investigations worked jointly through the OCDETF Program and HIDTA.

**Incarceration Rate** – The rate at which individuals are sentenced to imprisonment.

**OCDETF** – Organized Crime Drug Enforcement Task Force.

**Paper Fraudulent Refunds Deleted** – Dollar amount of refunds not issued for paper filed fraudulent returns.

**Paper Fraudulent Returns Deleted** – Paper filed fraudulent returns where refunds were not issued.

**Pros. Recs.** – Investigations on which prosecution was recommended.

**SI Initiated** – Subject Criminal Investigations initiated.

# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

## SUMMARY BY UNITED STATES CODE TITLE and SECTION for FY99

	SI INITIATED	PROS RECS	INDICTED	SENTENCED
<b>TITLE &amp; SECTION</b>				
26-7201 - Evasion	786	426	370	293
26-7203 - Failure to file	126	101	121	130
26-7206(1)- False return	384	399	387	298
26-7206(2) - Aid or assistance	142	90	88	65
26-7207 - Fraudulent returns	7	13	11	23
26-Other	<u>45</u>	<u>39</u>	<u>47</u>	<u>102</u>
<b>TITLE 26 TOTAL</b>	<b>1,490</b>	<b>1,068</b>	<b>1,024</b>	<b>911</b>
18-286 - Conspiracy to defraud	60	58	24	42
18-287 - False claims	121	87	70	78
18-371B* - Conspiracy	1	2	5	3
18-371K** - Conspiracy	140	128	129	93
18-371T*** - Conspiracy	18	23	23	20
18-371M**** - Conspiracy	31	41	67	75
18-1001 - False statements	9	12	15	21
18-1623 - False declarations	5	5	6	10
18-1956 - Money laundering	1,828	1,487	1,358	660
18-1957 - Money laundering	111	95	97	76
18-OTHER	<u>50</u>	<u>50</u>	<u>56</u>	<u>334</u>
<b>TITLE 18 TOTAL</b>	<b>2,374</b>	<b>1,988</b>	<b>1,850</b>	<b>1,412</b>
<b>TITLE 31 - Monetary transactions</b>	<b>88</b>	<b>64</b>	<b>78</b>	<b>98</b>
<b>OTHER TITLES</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>198</u></b>
<b>TOTAL</b>	<b><u>3,952</u></b>	<b><u>3,120</u></b>	<b><u>2,952</u></b>	<b><u>2,619</u></b>

# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

## SUMMARY BY PROGRAM AREA for FY99

	SI INITIATED	PROS RECS	INDICTED	CONVICTED	SENTENCED	DIT
<b>FRAUD</b>						
Tax Gap	1,631	1,231	1,146	N/A	1,034	57.7%
Other	<u>826</u>	<u>728</u>	<u>672</u>	N/A	<u>657</u>	<u>15.6%</u>
<b>TOTAL FRAUD*</b>	<b><u>2,457</u></b>	<b><u>1,959</u></b>	<b><u>1,818</u></b>	N/A	<b><u>1,691</u></b>	<b><u>73.3%</u></b>
<b>Fraud Sub-Program Areas</b>						
Health Care	139	138	144	168	181	4.6%
Bankruptcy	53	44	36	36	35	1.6%
Insurance	39	27	32	41	50	1.5%
Excise Tax	8	10	16	19	41	0.7%
Financial Institutions	194	131	127	106	91	2.8%
Foreign & Domestic	67	57	35	24	21	3.3%
Telemarketing	121	105	109	56	39	1.5%
QRP	208	166	124	125	146	4.8%
Return Preparers	95	49	55	70	76	4.2%
General Fraud	1,342	1,077	1,008	916	882	42.0%
Public Corruption	111	97	76	68	72	3.3%
Gaming	<u>80</u>	<u>58</u>	<u>56</u>	<u>50</u>	<u>57</u>	<u>2.5%</u>
<b>TOTAL of SUB PROGRAMS</b>	<b><u>2,457</u></b>	<b><u>1,959</u></b>	<b><u>1,818</u></b>	<b><u>1,679</u></b>	<b><u>1,691</u></b>	<b><u>72.8%</u></b>
<b>NARCOTICS</b>						
OCDETF	821	650	625	679	618	12.2%
Non-OCDETF	207	162	166	157	186	5.4%
HIDTA	85	55	53	43	29	1.9%
HIDTA/OCDETF **	<u>382</u>	<u>294</u>	<u>290</u>	<u>155</u>	<u>95</u>	<u>4.3%</u>
<b>TOTAL NARCOTICS</b>	<b><u>1,495</u></b>	<b><u>1,161</u></b>	<b><u>1,134</u></b>	<b><u>1,034</u></b>	<b><u>928</u></b>	<b><u>23.8%</u></b>
Receipt of Information Items & Other	N/A	N/A	N/A	N/A	N/A	<u>2.9%</u>
<b>TOTAL</b>	<b><u>3,952</u></b>	<b><u>3,120</u></b>	<b><u>2,952</u></b>	<b><u>2,713</u></b>	<b><u>2,619</u></b>	<b><u>100.0%</u></b>

See Glossary for detailed description of below.

\* Includes 0.5% DET.

\*\* Includes investigations worked jointly through HIDTA/OCDETF.





# TAX GAP STRATEGY

## Overview

In support of the overall mission of IRS, Criminal Investigation (CI) conducts investigations of alleged violations of tax and money laundering statutes in order to encourage and achieve voluntary compliance with the Internal Revenue laws. Voluntary compliance relies heavily on the deterrent effect of successful criminal prosecutions. During the past several years, CI has devoted a significant amount of its resources to the investigation and prosecution of those cases that will enhance confidence in the tax system and foster compliance with the tax laws.

IRS has used the term "tax gap" to define the difference between total true tax liability less the tax paid voluntarily for a given tax year. Tax gap is a calculation based on statistical data. Tax gap estimates calculated by IRS include only tax due on income earned in the legal sector of the economy. They do not include unpaid taxes due on illegally-earned income.

To ensure that CI resources were directed in a manner consistent with IRS' overall mission, CI implemented the Tax Gap Strategy. Criminal Investigation committed significant resources to those investigations with the greatest potential impact on narrowing the Tax Gap.

Tax Gap investigations include only those money laundering investigations in which tax-related violations are involved. They exclude all illegal industry

investigations such as narcotics. Tax-related investigations include all Title 26 violations within CI's jurisdiction as well as tax-related violations of the U.S. Criminal Code (Title 18 USC 286 (Conspiracy to defraud the government with respect to claims); Title 18 USC 287 (False claims); and Title USC 371 (Conspiracy to commit offense or to defraud the United States)).

All designated Tax Gap investigations adjudicated during FY99 relate to one of CI's fraud program areas. These include investigations involving bankruptcy fraud, abusive trusts, excise taxes, gaming, health care, insurance fraud, public corruption, return preparers, Questionable Refund (QRP) and general fraud. Many of the significant tax gap investigations, which were sentenced during the past year, are discussed in this Annual Report under the fraud program to which they relate.

## Direction/Future

In October 1999 CI unveiled its Interim Compliance Strategy. Criminal Investigation will be guided by this strategy until IRS develops its comprehensive compliance strategy.

The CI Strategy is comprised of three interdependent programs: Legal Source Tax Crimes; Illegal Source Financial Crimes; and Narcotics Related Financial Crimes. The strategy provides guidelines for the identification, development and investigation of cases in each particular program area.

The Legal Source Tax Crimes Program now takes the place of the Tax Gap Strategy. It addresses tax investigations involving taxpayers in legal occupations and legal industries, where only tax or tax-related violations (all Title 26 and 18 USC 286, 287, and 371K violations) are recommended by CI.

Legal source Tax Crimes encompasses all cases involving tax violations where income is derived through legal means and all forms of fraud against the IRS, such as questionable refund schemes, return preparer cases, excise tax cases, employment tax cases, and frivolous filers/non-filers.

To develop and select legal source cases that support the overall compliance strategy of IRS, CI will continue to focus on emerging areas of tax fraud and the development of national priorities. Criminal Investigation will also coordinate with the Service's civil components to identify specific areas of non-compliance.

Criminal Investigation's investigations, whether tax, money laundering, or narcotics all have a positive effect on tax compliance. However, tax investigations involving legal industries, and more specifically legally earned income, have a significant impact on the broadest range of taxpayers. Criminal Investigation is therefore committed to devoting significant resources to support

this critical program. Criminal Investigations success is dependent upon pursuing comprehensive financial investigations that will receive maximum publicity and result in greater compliance with the tax laws. The prosecution of these legal source cases is an integral

element to maintaining public confidence in our tax system and promoting voluntary compliance with the tax laws.

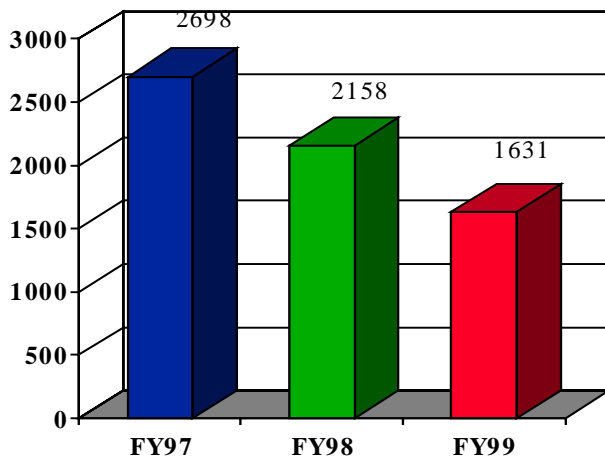
The Legal Source Tax Crimes Program is a critical component of a balanced compliance strategy that is designed to enable CI to direct its resources

to effectively meet the needs of the law enforcement community while at the same time supporting multi-functional and local compliance goals. In concert with CI's other programs, the Legal Source Tax Crimes Program will assist CI in successfully accomplishing its overall mission

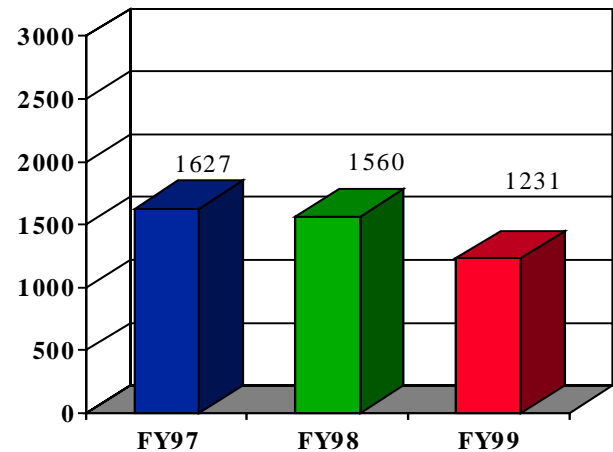
INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Tax Gap Strategy

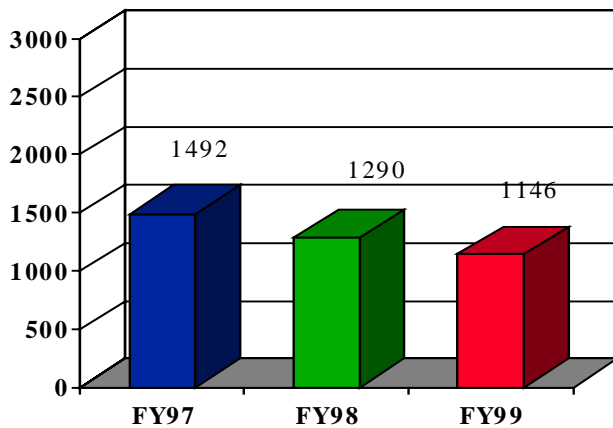
**Investigations Initiated**



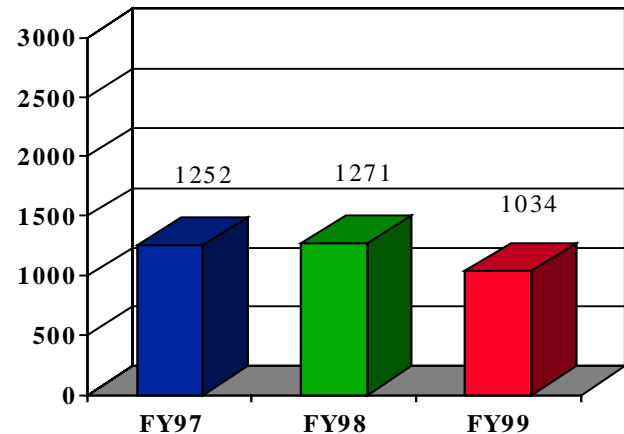
**Prosecution Recommendations**



**Indictments/Informations**



**Sentenced**



<b>Tax Gap Strategy Statistics</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>
Investigations Initiated	2698	2158	1631
Prosecution Recommendations	1627	1560	1231
Indictments/Informations	1492	1290	1146
Sentenced	1252	1271	1034
Incarceration Rate	73.6%	74.4%	76.2%
Avg. Months to Serve (w/Prison)	17	17	17
Avg. Months to Serve (all Sent.)	12	13	13
Direct Investigative Time (DIT)	59.7%	59.0%	57.7 %



# MONEY LAUNDERING STRATEGY

## Overview

The primary mission of CI is to foster voluntary compliance with the tax laws of the United States through vigorous enforcement of the criminal statutes that CI has jurisdiction over, which includes Title 31 currency reporting, and related Title 18 offenses such as money laundering and asset forfeiture. Criminal Investigation's statutory authority and the financial investigative expertise of its special agents has proven extremely useful in financially disrupting and dismantling criminal organizations when employed in conjunction with the efforts of other federal law enforcement agencies.

Money-laundering activity and tax evasion are closely related. In fact, Money-laundering activity involving illegal income can often be considered as "tax evasion in progress." It is sometimes difficult to determine whether a case is primarily a tax case, a money laundering case, or perhaps both. The same financial investigative skills are required and must be used in developing and investigating both money laundering and tax investigations.

Due to its limited resources and specialized expertise, CI prioritizes its efforts in currency reporting and money laundering enforcement, concentrating on those investigations where size, scope, and complexity require the financial investigative expertise of its special agents. Selection and prioritization of

targets for investigation are made by keeping in mind the furtherance of CI's mission.

The Chief (CI) has implemented both basic and advanced training in the areas of currency reporting, money laundering, international banking, and asset forfeiture.

## Background

The Currency and Foreign Transactions Reporting Act, Public Law No. 91-508, Title II, along with financial institution record-keeping requirements, became known as the Bank Secrecy Act (BSA). The BSA mandates the reporting of certain currency transactions conducted with a financial institution, the disclosure of foreign bank accounts, and the reporting of the transportation of currency across US borders. The BSA requires the filing of these financial reports with the government.

Congress has repeatedly recognized that these reports have a high degree of usefulness in criminal tax, money laundering, and regulatory investigations and proceedings.

Under the authority of the BSA, Treasury promulgated regulations relative to reporting requirements. These regulations require reports such as a Currency Transaction Report (CTR); a Currency Transaction Report by a Casino (CTRC); a Report of International Transportation of Currency or Monetary Instruments (CMIR);

and a Report of Foreign Bank and Financial Account (FBAR). These reports are required for transactions in excess of \$10,000.

Additionally, Section 6050(I) of the Internal Revenue Code requires anyone involved in a trade or business, not subject to the BSA, to report currency received for goods or services in excess of \$10,000 on IRS Form 8300.

In 1986, Congress passed the Money Laundering Control Act (Title 18 US Code Sections 1956 and 1957). This act created criminal offenses for money laundering and for knowingly engaging in monetary transactions involving property derived from certain specified unlawful activity.

In 1996, banks and other financial institutions were required by federal regulators to report suspicious financial transactions to the Financial Crimes Enforcement Network (FinCEN). A Suspicious Activity Report (SAR) must be filed on suspicious transactions that indicate criminal activity, e.g. loan fraud or money laundering.

CI has been delegated primary investigative jurisdiction in all money laundering investigations where the underlying conduct is a violation of the income tax laws or the Bank Secrecy Act (BSA).

### **Recent Regulations and Legislation**

In August 1999, the Treasury Department announced the publication of a final regulation that requires the money services business (MSB) industry to register with FinCEN in an effort to strengthen anti-money laundering controls within these businesses. MSBs, which in 1996 accounted for \$200 billion in financial transactions, include money transmitters, issuers, redeemers and sellers of money orders and travelers checks, check cashiers and currency retail exchangers. MSBs will be required to register with Treasury by December 31, 2001.

In September 1999, Treasury Secretary Summers and Attorney General Janet Reno announced the National Money Laundering Strategy. This strategy was mandated through the passage in October 1998 of the Money Laundering and Financial Crimes Strategy Act of 1998.

CI played a key role in the development of this strategy and is involved in implementing all aspects of it. The Strategy sets forth a series of action items designed to accomplish four fundamental goals in the fight against money laundering: 1) strengthening domestic enforcement; 2) enhancing the measures taken by banks and other financial institutions; 3) building a stronger partnership with state and local law enforcement agencies; and 4) bolstering international cooperation. One key action item that the strategy calls for is the designation of High-Risk Money Laundering and Related Financial Crime Areas (HIFCAs). The designation of a HIFCA is intended to

concentrate law enforcement efforts at the federal, state, and local level on combating money laundering in high-intensity money laundering zones, whether based on drug trafficking or other crimes.

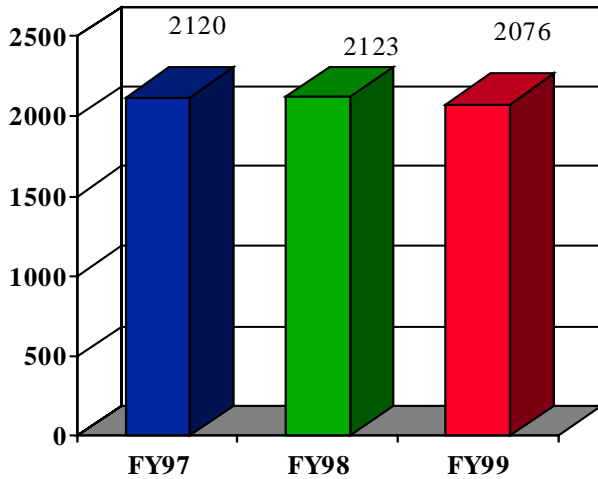
### **The Future**

Through its Money Laundering Strategy, Criminal Investigation will continue to identify, investigate, and assist in prosecuting significant tax, currency, and money laundering offenders, and tracing their assets, both domestically and internationally, for forfeiture purposes.

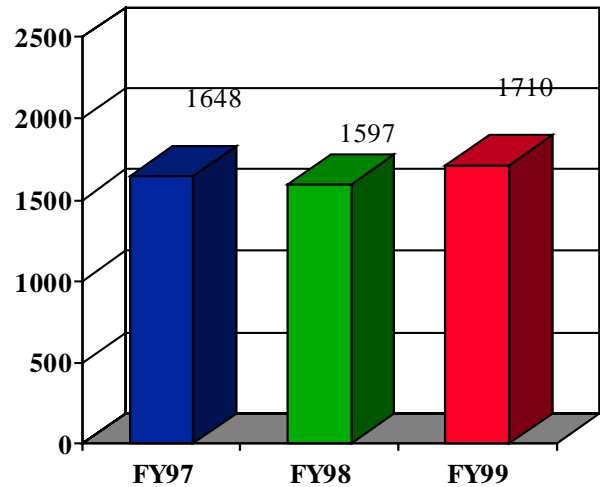
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Money Laundering Strategy

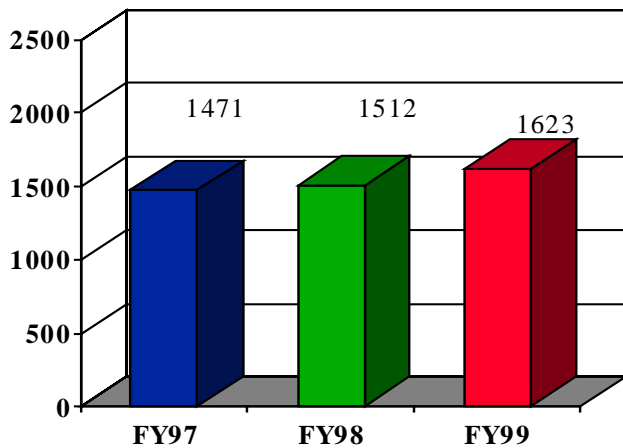
**Investigations Initiated**



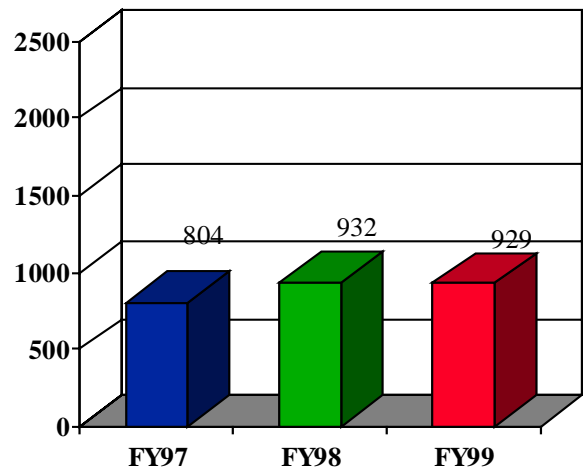
**Prosecution Recommendations**



**Indictments/Informations**



**Sentenced**



Money Laundering Statistics	FY97	FY98	FY99
Investigations Initiated	2120	2123	2076
Prosecution Recommendations	1648	1597	1710
Indictments/Informations	1471	1512	1623
Sentenced	804	932	929
Incarceration Rate	91.7%	90.7%	89.1%
Avg. Months to Serve (w/Prison)	73	76	67
Avg. Months to Serve (all Sent.)	71	74	64
Direct Investigative Time (DIT)	25.2%	27.5%	29.3%



# INTERNATIONAL STRATEGY

## Overview

Governments around the world are realizing that money laundering and other financial crimes are no longer limited by their geographic boundaries. Over 100 nations have adopted or are considering enacting statutes to criminalize various detrimental financial activities, including money laundering.

In 1994, CI developed and implemented an International Strategy to address international law enforcement objectives. The strategy calls for the assignment of special agents to strategic foreign posts for the purpose of:

- Facilitating the development and utilization of information obtained in host foreign countries to support investigations over which CI has law enforcement responsibility.
- Providing assistance to foreign governments in establishing or enhancing money laundering, criminal tax, and asset forfeiture statutes.
- Assisting foreign governments in developing and improving exchange of information agreements.
- Conducting tax, money laundering and financial investigative techniques training courses for host governments.
- Establishing liaison contacts with foreign law enforcement officials.

During FY99, CI had special agents or attachés assigned to permanent positions in Bogota,

Colombia, Mexico City, Mexico, Frankfurt, Germany, Ottawa, Canada, and Hong Kong, China. In FY 2000 a second special agent will be posted in Mexico. Although only in its fifth year, the positive results obtained by overseas special agents have enhanced CI's domestic operations and promoted goodwill in the international law enforcement community. These agents are working closely with investigators responsible for investigating similar crimes throughout the world, building the trust that facilitates obtaining information vital to CI's investigations.

Criminal Investigation's international presence has also promoted cooperative enforcement efforts between respective governments. Foreign-based special agents have also provided valuable assistance in the form of training and advice to foreign governments trying to develop money laundering and asset forfeiture legislation. Headquarters analysts participated with State Department-sponsored assessment teams in the Dominican Republic, Nigeria and Hungary. Criminal Investigation participated in a technical assistance team established to review the Dominican Republic's anti-money laundering activities with an emphasis on their Financial Intelligence Unit (FIU). In Hungary, CI provided technical assistance and training to the newly formed Criminal

Investigation Division of the Hungarian Tax Authority.

## Case Support

During FY99 an increasing number of investigations involved foreign witnesses and evidence. Special agents assigned to foreign posts routinely handle both formal and informal requests for information from district offices. These requests include conducting research, facilitating the seizure of assets, conducting interviews, securing documentary evidence and assisting in the extradition of fugitives. Criminal Investigation special agents overseas are instrumental in coordinating international enforcement actions by securing the required approvals from embassy and government officials. They also supply guidance and support in the drafting of Tax Treaty requests to foreign governments. In particular, due in part to CI's direct contact with Swiss tax officials, this year CI special agents began receiving bank records from Switzerland on pure tax cases. Much of the success by these agents is attributed to the liaison contacts they have developed with their foreign law enforcement counterparts. These special agents also develop information from foreign informants that is forwarded to the appropriate district for further investigation.

## Cooperative Efforts

Criminal Investigation works as a partner in many cooperative enforcement efforts in countries

in which we have agents assigned. In Canada, CI and Revenue Canada are working a joint case identification project involving automobile dealerships, as well as working together on a number of simultaneous criminal investigations. In Mexico, CI and the Hacienda (Mexico's Treasury Department) and PGR (Mexico's Justice Department) are cooperating in several high profile money laundering investigations. In one recent investigation, CI provided bank account and other information allowing the PGR to seize in excess of \$9 million in narcotics proceeds in Mexican banks that otherwise would have remained in the criminal's possession. Criminal Investigation worked closely with the Hong Kong Police to allow CI's attaché access to Suspicious Activity Reports filed by Hong Kong banks involving US citizens or financial institutions. From this database, potential subjects are identified and forwarded to district offices for criminal or civil action.

### **Interpol Support**

An important part of CI's international strategy is a commitment to the International Criminal Police Organization, commonly known as INTERPOL. With an agent assigned to the INTERPOL Secretariat General (SG) in Lyon, France and an agent detailed to the INTERPOL U.S. National Central Bureau, in Washington, DC, CI has made a firm commitment to INTERPOL.

At INTERPOL headquarters in France, CI participates in planning and coordinating strategic efforts to combat international crime. Criminal Investigation's agent at INTERPOL Washington affords CI Special Agents access to the unique tactical investigative and enforcement tools of INTERPOL worldwide. Through INTERPOL CI gains access to investigative assistance in 177 INTERPOL countries.

Our agents regularly request INTERPOL's assistance in their investigations. In FY99 INTERPOL Washington made requests for investigative assistance to countries all over the world on behalf of CI Special Agents. In addition, INTERPOL maintains International Red Notices (fugitive wanted alerts) for many IRS fugitives. This year an individual who had been an IRS fugitive since 1993 was captured by Italian authorities while attempting to cross the border from Switzerland into Fornasette, Italy. Italian authorities were alerted by a Red Notice published for the fugitive.

### **Training**

During FY99, CI again played a prominent role in training law enforcement personnel around the world in financial investigative techniques used in money laundering, tax, and other financial investigations. Criminal Investigation's Financial Investigative Techniques and Money Laundering training courses have been taught to hundreds

of financial investigators from around the world. Emphasis this year was placed on State Department initiatives in Russia, the Baltic Nations, Hungary, Dominican Republic, Colombia and Mexico. In addition to conducting our own courses, CI also participated in training sponsored by other agencies in Thailand, Moldavia, Romania, Armenia, Russia, Uruguay, Mexico and Ghana. Criminal Investigation continues to participate in the International Law Enforcement Academy (ILEA) in Budapest, Hungary. Special agents presented several blocks of instruction during these eight-week sessions. Training was presented to participants from 12 European countries. Training material covered basic financial investigative techniques designed to provide the participants with an understanding and appreciation of financial crimes. This year a second permanent ILEA facility opened in Bangkok, Thailand. Criminal Investigation participates in this core program as well, with participants from over 15 different Asian countries. Criminal Investigation also participates in ILEA South America, which is expected to be housed permanently in Central America next year. A fourth ILEA in Africa is expected to begin operation in FY2000. Criminal Investigation will be part of this core program as well.





# BANKRUPTCY FRAUD

## Overview

The Bankruptcy Reform Act of 1978 restructured the bankruptcy court system and overhauled the nation's bankruptcy laws in an attempt to conform to modern commercial transactions. Since these changes liberalized debtor access to bankruptcy relief, annual bankruptcy filings have increased to over 1.4 million per year. The increasing number of bankruptcies filed is so alarming that many experts feel debt relief provided via bankruptcy is being abused, and too many petitions are fraudulent.

It is estimated that 10% of all bankruptcy petitions contain some element of fraud. This results in serious consequences which undermine public confidence in the system, taint the reputation of honest citizens seeking protection under the

bankruptcy statutes, and have a negative impact on voluntary compliance with our income tax system. With so much at stake, the detection and prosecution of bankruptcy fraud continues to be a priority for the IRS as well as the Department of Justice.

Since the Internal Revenue Service (IRS) is often a major creditor in bankruptcy proceedings, it

is paramount that tax revenues be protected. Prior to 1999 the Service filed over 100,000 Proofs of Claim each year to protect billions in taxes annually.

## Program Goals

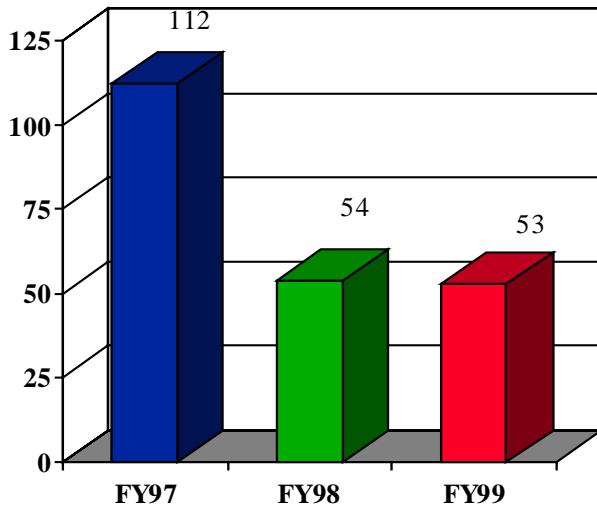
The goals of the Bankruptcy Fraud program are to:

- Increase voluntary compliance with Federal tax laws through the prosecution of those committing significant tax and money laundering crimes in the bankruptcy arena.
- Enhance IRS presence among bankruptcy professionals and practitioners for the dual purpose of increasing compliance and providing contact points to report allegations of fraud towards protecting accrued taxes.
- Foster enhanced cooperation between the Collection and Criminal Investigation Divisions in attaining mutual compliance goals.

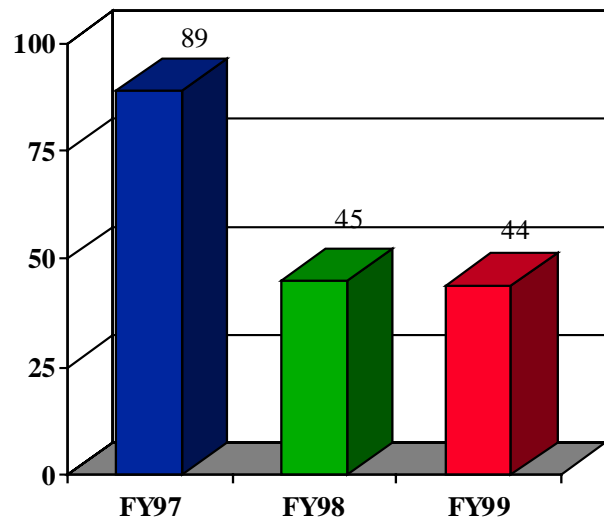
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Bankruptcy Fraud

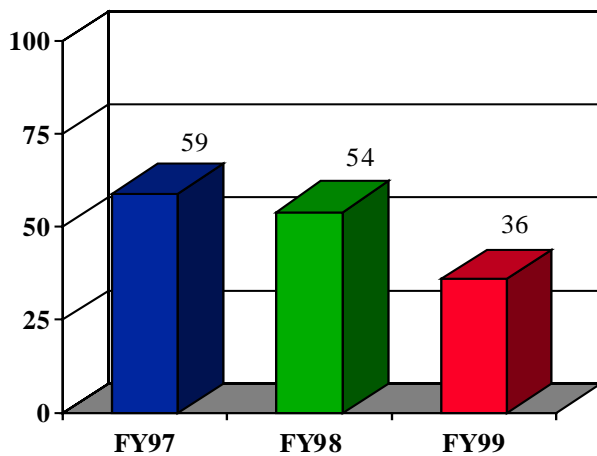
**Investigations Initiated**



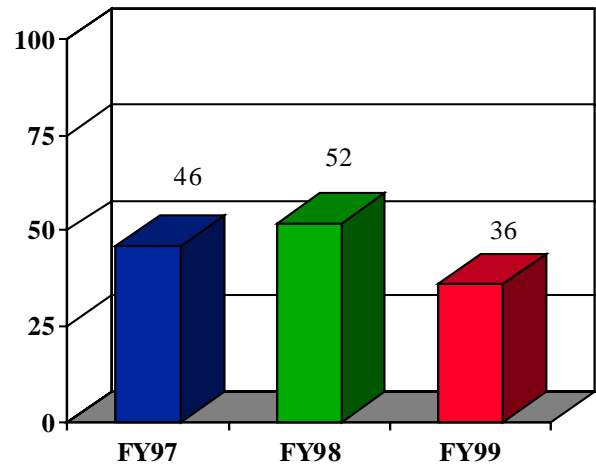
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



<b>Bankruptcy Fraud Statistics</b>	<b>FY 97</b>	<b>FY 98</b>	<b>FY 99</b>
Investigations Initiated	112	54	53
Prosecution Recommendations	89	45	44
Indictments/Informations	59	54	36
Convictions	46	52	36
Incarceration Rate	88.1%	69.0%	65.7%
Avg. Months to Serve (w/Prison)	25	26	30
Avg. Months to Serve (all Sent.)	22	18	19
Direct Investigative Time (DIT)	2.7%	2.1%	1.6%



# EXCISE TAX

## Overview

Organized criminal elements continue to devise schemes to evade Federal and state motor fuel excise tax. It was once estimated that these schemes resulted in the loss of over \$1 billion in excise tax annually – funds that were needed to maintain and improve our national transportation systems. The impact of these schemes goes far beyond the revenue loss. They have an adverse effect on the motor fuel industry by eroding the market share of legitimate dealers and even forcing some dealers out of business. Through the Excise Tax Program, Criminal Investigation (CI) has made a concerted effort to disrupt or dismantle the criminal organizations responsible for motor fuel tax evasion schemes.

Convictions obtained in motor fuel excise tax investigations have suppressed evasion in many parts of the country. They also provided an impetus for enactment of legislation, which further reduced evasion and contributed to increases in both Federal and state revenue.

## Revenue Enhancement

Criminal Investigation's mission of enhancing voluntary compliance through the successful prosecution of excise tax evaders has served to protect the revenue and deter others from engaging in similar conduct. The removal of

organized criminal groups from the marketplace, coupled with regulatory reform, as well as enhanced Federal, state and industry cooperation, has increased motor fuel tax compliance.

During calendar year 1998, over \$681 million in additional diesel fuel tax was collected due to increased compliance and enforcement. Since the Federal dyed fuel regulations have taken effect, state diesel fuel tax revenues have increased at twice the expected amount.

## Legislative Reform

Criminal Investigation's motor fuel excise tax program has identified weaknesses in motor fuel excise tax laws and proposed legislative reforms to strengthen the system and reduce opportunities for evasion. In 1993, legislation moved the point of taxation on diesel fuel to the fuel-dispensing terminal and mandated that diesel fuel used for non-taxable purposes be dyed. Since the implementation of this legislation, evasion has declined and billions in additional revenue have been collected. These reforms were the result of a concerted effort by government and industry.

Provisions in the Taxpayer Relief Act of 1997 mandated that kerosene be taxed in the same manner as diesel fuel. It has been estimated that this legislation will generate \$50

million annually in diesel fuel tax revenue, while deterring the lucrative scheme of illegal blending of taxed diesel fuel and kerosene.

In FY98, the Joint Federal/State Motor Fuel Compliance Project was renewed for another six years. This project has been the catalyst for many of our past successes and is one of the most successful programs of its kind. The project's continuation maintains the cooperative relationships essential for continued success and mandates the design and construction of improved fuel tracking systems to curtail motor fuel tax evasion.

The Joint Federal/State Motor Fuel Compliance Project reached a milestone this past year when the last of the motor fuel tax cases indicted during 1993-1995 was brought to a successful conclusion.

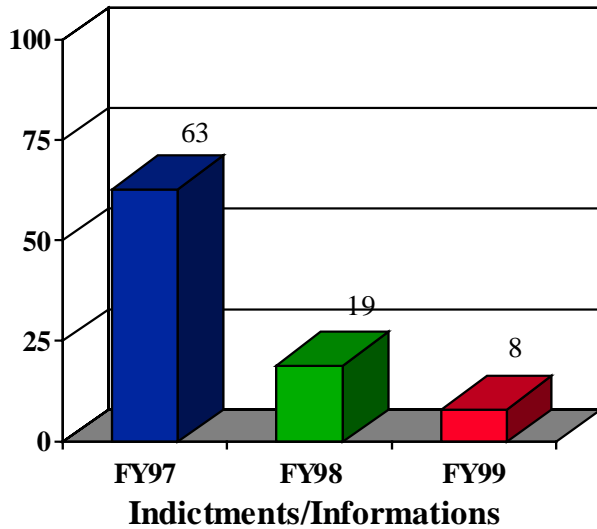
## The Future

Since opportunities still exist for blending and interstate evasion schemes, continued vigilance is required. Further, the program continues to demonstrate that schemes designed to evade excise tax on tires, freon, and other ozone-depleting chemicals as well as truck chassis have become targets of opportunity for organized criminal groups.

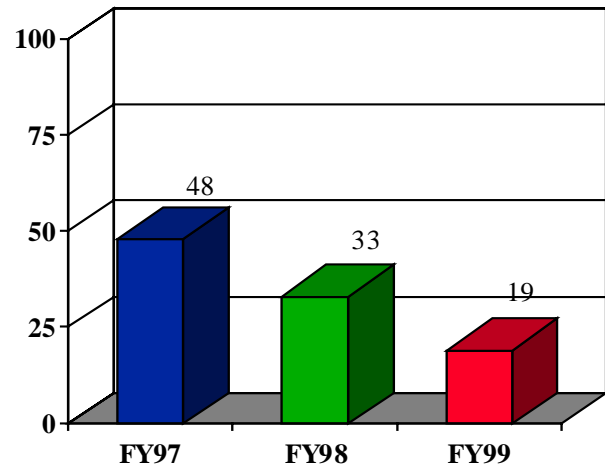
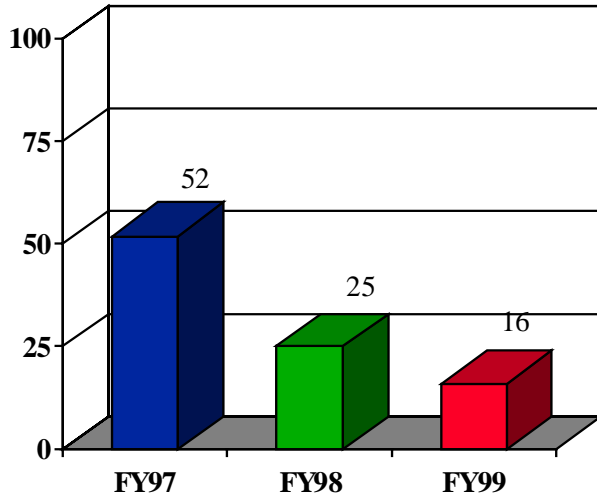
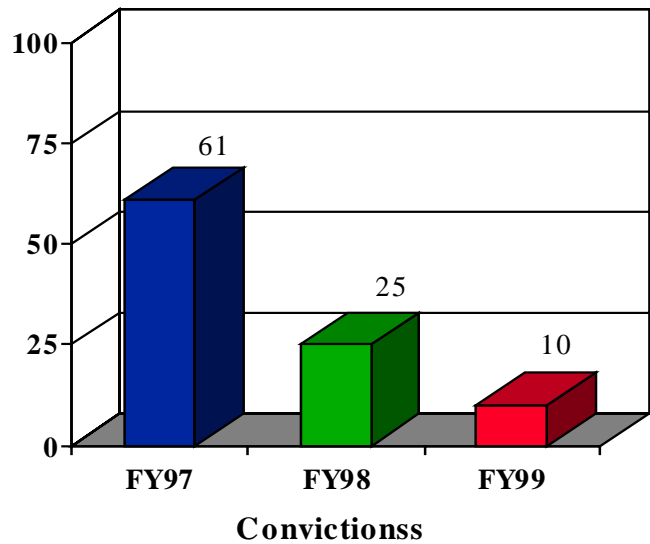
# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

## Excise Tax

**Investigations Initiated**



**Prosecutions Recommendations**



<b>EXCISE TAX STATISTICS</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>
Investigations Initiated	63	19	8
Prosecution Recommendations	61	25	10
Indictments	52	25	16
Convictions	48	33	19
Incarceration Rate	75.8%	82.6%	82.9%
Avg. Months to Serve (w/Prison)	20	22	30
Avg. Months to Serve (all Sent.)	15	18	25
Direct Investigative Time (DIT)	1.3%	0.9%	0.7%



# FINANCIAL INSTITUTION FRAUD

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## Overview

Criminal Investigation's Financial Institution Fraud Program focuses on criminal violations involving fraud against banks, savings and loan associations, credit unions, check cashers and stockbrokers. Criminal Investigation is a major contributor in the effort to combat financial institution fraud and the United States Attorney's Office recognizes CI's financial investigative expertise in this complex area of fraud. Consequently, CI is invited to participate in most major cases involving financial institutions.

The ability to bring income tax or money laundering charges materially enhances a prosecutor's effectiveness in combating fraud committed against financial institutions, regardless of whether the violators operate within or outside the financial institution.

## Current CI Activities

During FY 99, CI participated in Bank Fraud Working Groups and in various financial

institution task forces at the field level. Criminal Investigation continues to be a member of the Interagency Bank Fraud Working Group (IBFWG). The primary role of IBFWG is to foster communication and facilitate the exchange of information between agencies involved in the investigation and prosecution of financial institution fraud.

Criminal Investigation recognizes the potential for individuals and organizations to use the Internet to facilitate income tax evasion and money laundering. Criminal Investigation has taken proactive steps to combat fraud involving the Internet. In this regard, CI is an active participant in the Cyberbanking Working Group (CWG) to study electronic money and devise safeguards to protect consumers. CWG is comprised of representatives of regulatory and law enforcement agencies.

Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR) continue to be an excellent source of financial fraud cases for CI. In the field, CI has established procedures

for following up on CTRs and SARs with the reporting financial institution. Often direct contacts are made with the reporting financial institution, which enhances the positive relationship CI has established in the banking industry.

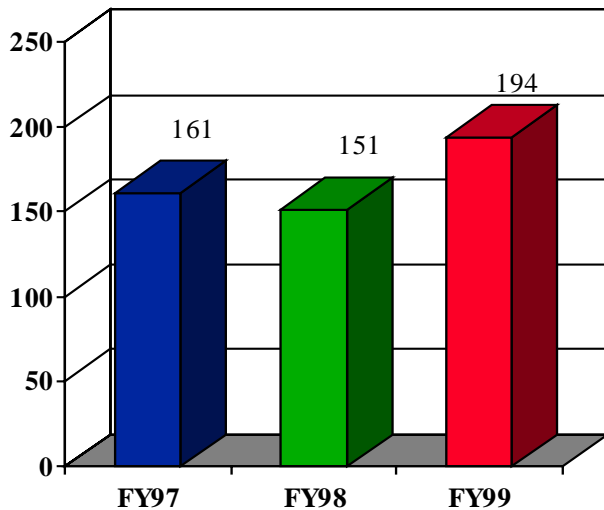
The use of Sight Drafts to defraud financial institutions proliferated with the emergence of radical militia groups. These fictitious financial instruments resemble bank cashier's checks and have been issued in amounts ranging from several thousand to over \$10 billion. Criminal Investigation has taken a more aggressive role in these types of investigations by obtaining approval to charge Title 18 USC Section 514

(Fictitious Obligations) in connection with tax administration. This statute was enacted specifically to prosecute individuals and groups who choose to use these bogus instruments to defraud financial institutions as well as the Internal Revenue Service.

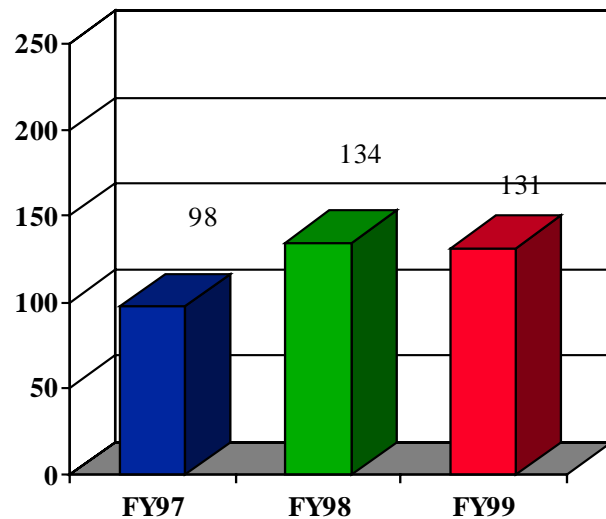
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Financial Institution Fraud

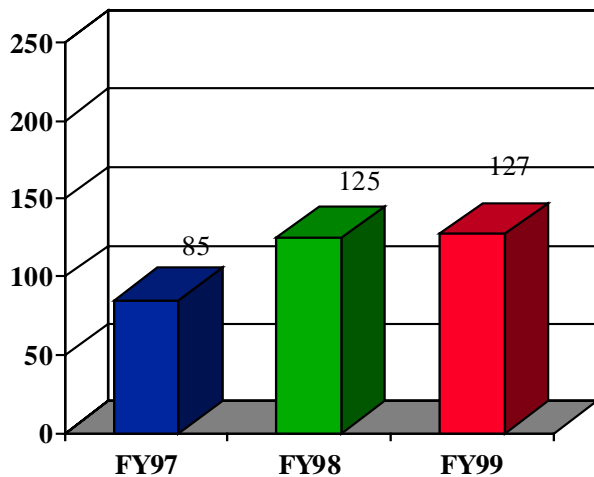
**Investigations Initiated**



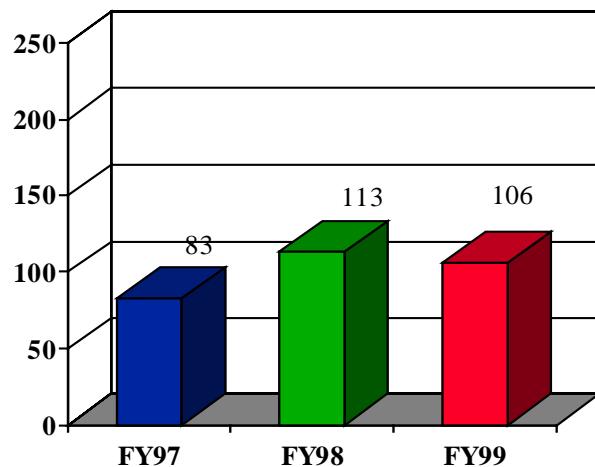
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



<b>Financial Institution Fraud Statistics</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>
Investigations Initiated	161	151	194
Prosecution Recommendations	98	134	131
Indictments/Informations	85	125	127
Convictions	83	113	106
Incarceration Rate	82.1%	77.6%	75.8%
Avg Months to Serve (w/Prison)	22	35	35
Avg. Months to Serve (all Sent.)	18	27	27
Direct Investigative Time (DIT)	2.1%	2.6%	2.8%



# FOREIGN AND DOMESTIC TRUSTS

## Overview

It is estimated that \$4.8 trillion in wealth will be inherited or transferred from one generation to the next by 2015, with much of it transferred through a variety of trusts. Filings of trust returns (Form 1041's) are now the third most frequently filed income tax return behind individual and corporate returns. Although the vast majority of these transfers are legal there is widespread potential for fraud.

In Fiscal Year 1999, CI elevated abusive foreign and domestic trusts from an emerging issue to a program area. This elevation was done due to the proliferation of abusive promotions in the US. These promotions are targeted towards wealthy individuals, small business owners, and professionals such as doctors, lawyers, and dentists. The promotions, which are in some instances distributed by a national network of promoters, promise taxpayers substantial tax reduction and asset

protection. In reality, these promotions are nothing more than complex tax evasion schemes.

Although the individual abusive promotions vary by scheme, there are two basic schemes that are being promoted: the domestic package and the foreign package. The former refers to a series of trusts created in the US. The latter are formed offshore, usually in "tax haven" countries, and outside the jurisdiction of the U.S. The trusts involved in both packages are vertically layered, with each trust distributing income to the next layer. The goal of these schemes is to fraudulently reduce taxable income. Although these schemes give the appearance of separating responsibility and control from the benefits of ownership, as would the case with legitimate trusts, they are in fact controlled by the taxpayer.

Criminal Investigation is aggressively combating trust schemes by conducting

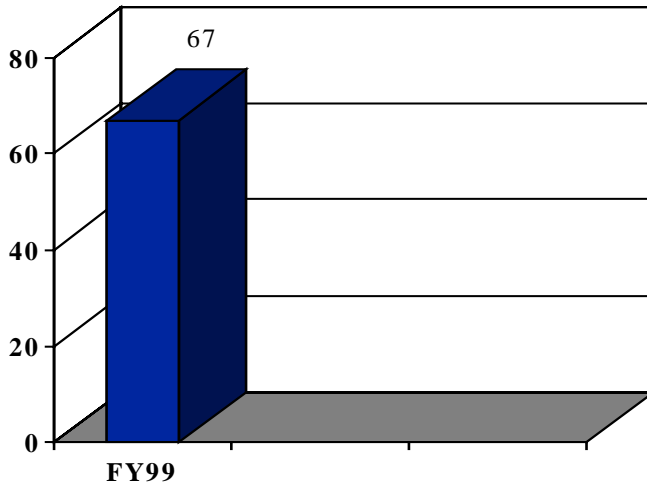
investigations of abusive promoters and their clients where appropriate. In addition, fraudulent trust issues are addressed through a national strategy that includes CI, the Examination and Collection Divisions, Chief Counsel, and the Department of Justice. As part of this strategy, emphasis is placed on cross-functional coordination, the identification of fraudulent trust promotions, and the use of civil and criminal enforcement actions.

Criminal Investigation and the Examination Division have engaged in outreach activities, such as presentations to professional organizations, the creation and distribution of an information pamphlet, IRS Public Announcement Notices, warnings posted on the Internet and extensive media coverage to educate people to recognize and avoid fraudulent trust promotions.

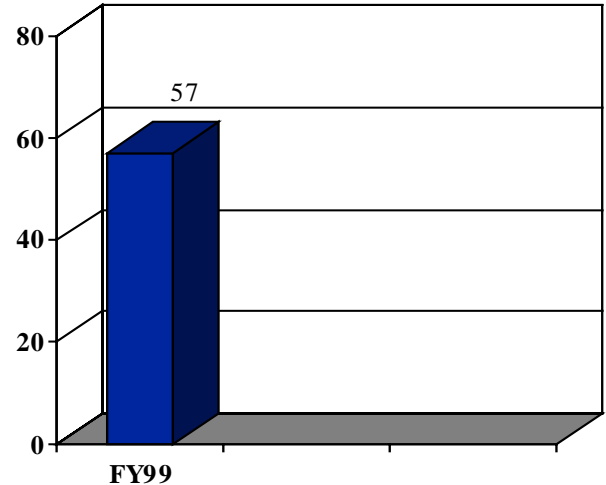
# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

## FOREIGN & DOMESTIC TRUST

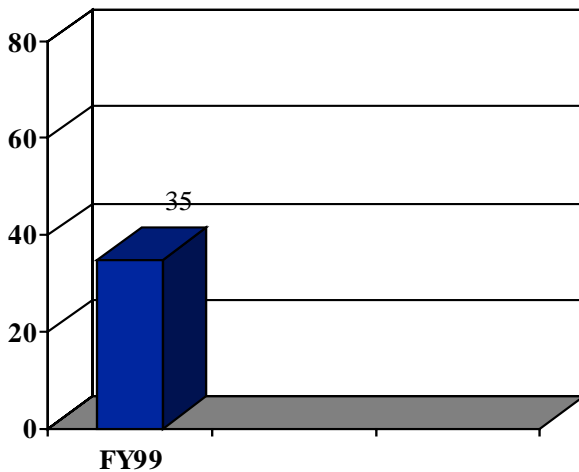
**Investigation Initiated**



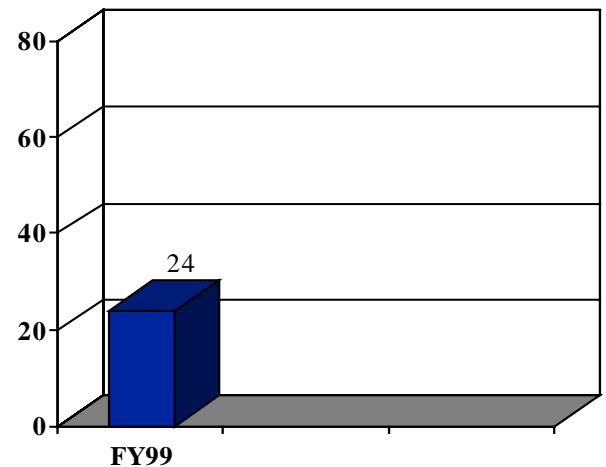
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Foreign & Domestic Trust	FY99
Investigations Initiated	67
Prosecution Recommendations	57
Indictments/Informations	35
Convictions	24
Incarceration Rate	85.7%
Avg. Months to Serve (w/Prison)	35
Avg. Months to Serve (all Sent.)	30
Direct Investigative Time (DIT)	3.3%





# GAMING

## Overview

The Criminal Investigation Gaming Program was initiated in FY94 in response to significant growth in the legalized gaming industry in the U.S. This growth continues unabated with the expansion of gaming to nearly all states, as well as the exponentially growing Internet gaming segment, which has no global boundaries. Criminal Investigation continues to focus attention on this industry through the enforcement of tax, money laundering, and other related financial criminal statutes.

Illegal gaming, including bookmaking, numbers, and some charitable and Internet gaming, continue to be areas of concern for CI.

The Gaming Program continues to consist of two primary initiatives. The first is our traditional investigative effort directed at persons suspected of violating laws within our jurisdiction. Second is liaison activity with Federal and state gaming boards, licensing commissions, industry regulators, and law enforcement.

This liaison activity includes participation in writing state gaming laws and regulations, assisting in licensing activities, casino SAR and CTR compliance work, and developing investigations through these contacts. We continue our liaison activity as an essential element of a strong gaming program and a law enforcement presence.

## Direction/Future

Legalized gaming has expanded at rates far exceeding the general economy. With America's continuing appetite for legalized gaming, coupled with local governments' increasing reliance on gaming as a source of revenue, legalized gaming has become a permanent element of our society. Consequently, a more concerted effort should be taken to ensure our involvement in only those investigations that are egregious, cause harm to victims, or cause excessive losses of tax revenue.

The recent growth of international Internet gambling is a major area of concern that was addressed in recent Congressional hearings. Other countries are studying the legality and regulatory issues associated with Internet gaming. Some countries have passed legislation legalizing Internet gaming. This has posed a serious enforcement issue for the US in that current Federal laws, and many state laws make illegal the placing of bets using interstate telephone or wire. This conflict of laws has created jurisdictional concerns between these countries and the US.

Regulations implementing the Bank Secrecy Act have been amended to include casinos operated by or on behalf of Indian tribes within the definition of "financial institution". The amendments extended the reporting and record-keeping

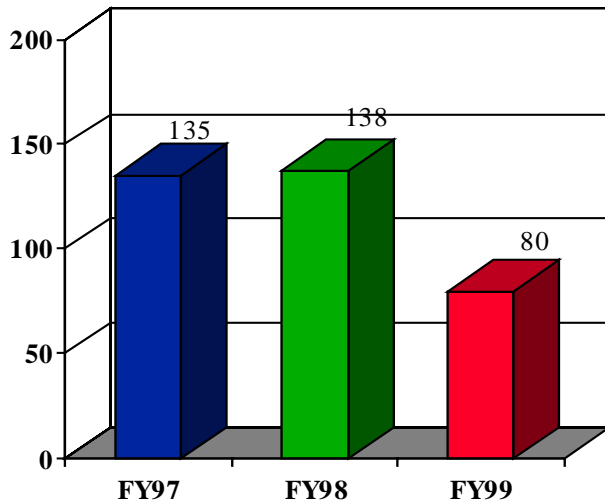
requirements and anti-money laundering safeguards of the Bank Secrecy Act to tribal casinos.

As can be seen in the graphs following this section, there has been a downward trend in all facets of the gaming program. This is due, in part to the growing acceptance of gambling both (legal and illegal) to American society. Additionally, CI has made a conscious decision to scale back our investigative efforts against traditional illegal gambling unless there is a substantial criminal tax issue or we can identify bonifide victims. Criminal Investigation will continue to pursue violations occurring in the gaming industry. Future illegal gaming investigations may involve domestic and international use of the Internet.

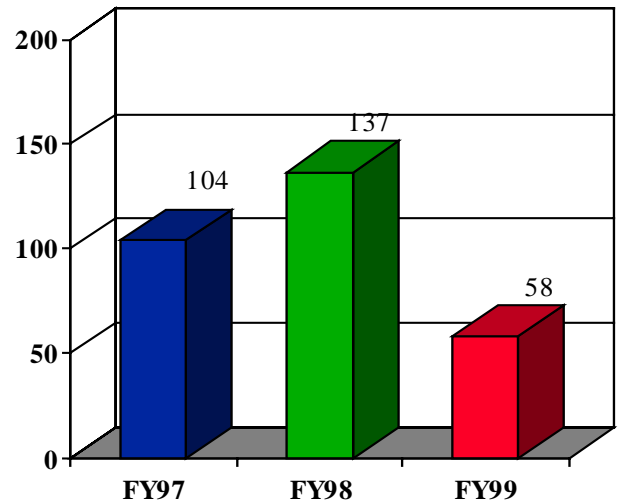
# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

## Gaming

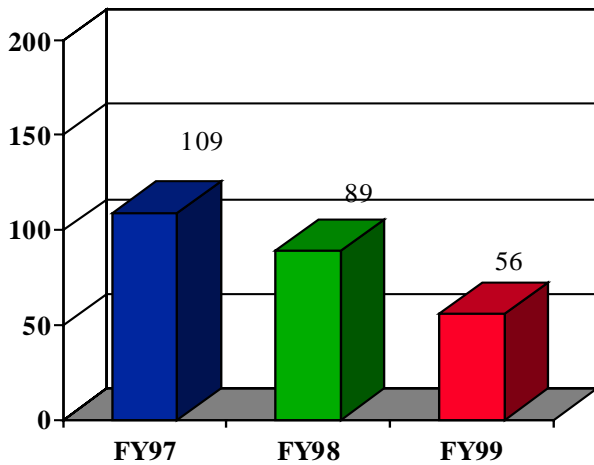
**Investigations Initiated**



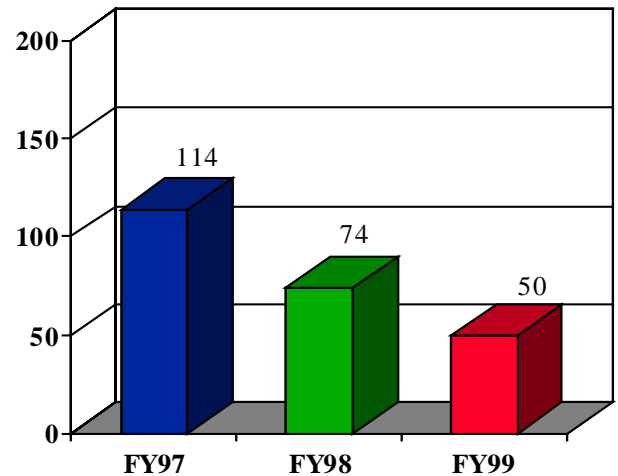
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



<b>Gaming Statistics</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>
Investigations Initiated	135	138	80
Prosecution Recommendations	104	137	58
Indictments/Informations	109	89	56
Convictions	114	74	50
Incarceration Rate	75.0%	64.6%	66.7%
Avg Months to Serve (w/Prison)	17	20	25
Avg. Months to Serve (all Sent)	13	13	17
Direct Investigative Time (DIT)	2.7%	2.4%	2.5%



# GENERAL FRAUD

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## Overview

General Tax Fraud is CI's largest single program and encompasses many different types of investigations. General Tax Fraud investigations are the main component of CI's efforts to foster voluntary compliance and reduce the Tax Gap. The majority of these investigations involve white-collar financial crimes in legal industries and encompasses a broad base of individuals from all facets of our economy.

General Fraud is the program from which CI usually identifies emerging areas of non-compliance, which helps us to focus our resources where they are most needed.

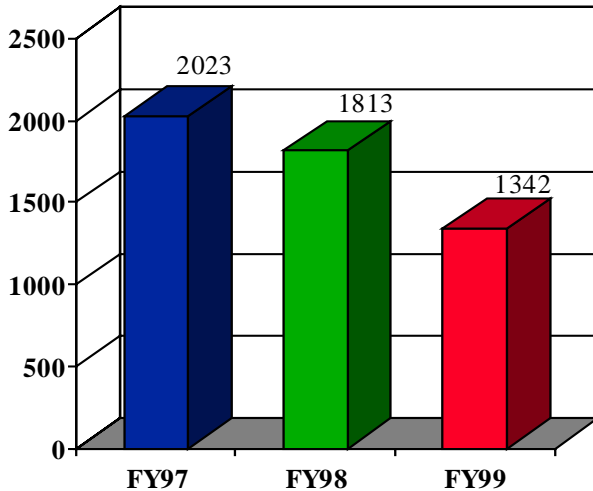
Criminal Investigation continues to emphasize full and complete financial investigations that have the greatest impact on reducing the Tax Gap. The majority of these investigations fall under General Fraud Program. Many investigations in specific areas

of the economy that were previously reported under the General Fraud Program have evolved into their own program areas, such as Telemarketing, Health Care Fraud, and Abusive Foreign and Domestic Trusts. These three programs are examples of emerging areas of noncompliance upon which we have focused our resources.

# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

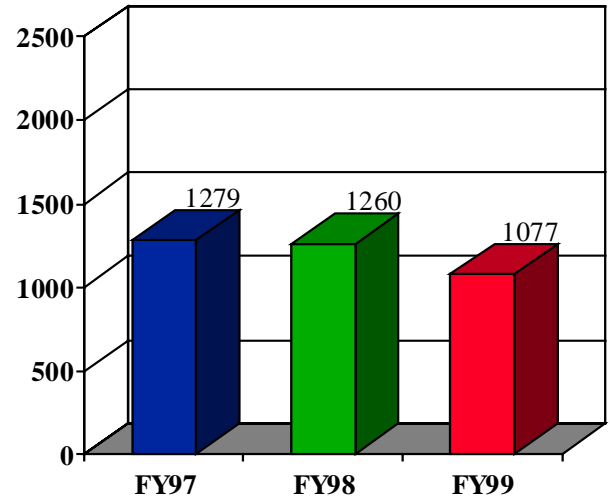
## General Fraud

**Investigations Initiated**

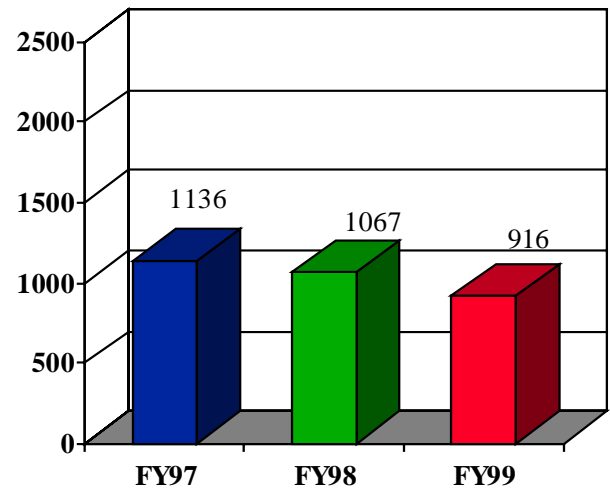
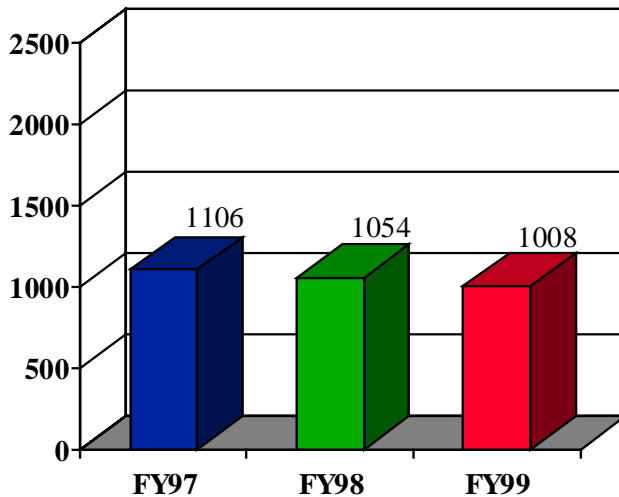


**Indictments/Informations**

**Prosecution Recommendations**



**Convictions**



General Fraud Statistics	FY97	FY98	FY99
Investigations Initiated	2023	1813	1342
Prosecution Recommendations	1279	1260	1077
Indictments/Informations	1106	1054	1008
Convictions	1136	1067	916
Incarceration Rate	72.4%	74.7%	75.5%
Avg. Months to Serve (w/Prison)	24	22	22
Avg. Months to Serve (all Sent)	17	17	16
Direct Investigative Time (DIT)	42.8%	45.3%	42.0%



# HEALTH CARE FRAUD

## Overview

"Fighting health care fraud is one of this Administration's highest priorities. Health care fraud and abuse costs Americans millions of dollars every year, degrades the quality of our system, and hinders ordinary Americans from getting the care they need."  
(Attorney General Janet Reno)

According to the Health Care Financing Administration, annual health care expenditures in the United States for 1997 exceeded \$1.1 trillion. Included in this 1997 amount, Medicare and Medicaid expenditures were \$214.6 billion and \$159.9 billion, respectively. Some experts estimate that approximately 10% of all health care spending is a result of fraud; therefore the potential amount of health care fraud could be in excess of \$100 billion.

## Legislation

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) contains anti-fraud provisions as well as civil and criminal enforcement provisions. HIPAA also allocated resources for enforcement activities at the Departments of Justice (DOJ) and Health and Human Services (HHS). During the first year after its passage, there was a 15% increase in indictments and an 18% increase in convictions

in health care fraud investigations.

## Criminal Investigation's Role in Health Care Fraud

Criminal Investigation continues to be pro-active in the health care fraud arena by placing a high priority on investigations in this program area. Criminal Investigation investigates health care fraud from two perspectives – tax and money laundering. Tax investigations are initiated when income generated from health care fraud is not reported or underreported on tax returns, or when there is an overstatement of expenses on tax returns. Money laundering occurs in a wide range of fraudulent health care schemes such as false claims, kickbacks, or staged accidents. Criminal Investigation investigates money laundering when either illegally obtained funds from health care fraud are used to purchase assets or when the perpetrators of the schemes devise elaborate methods to conceal their fraudulent proceeds.

Criminal Investigation's tax or money laundering cases enhance on-going health care fraud investigations by other agencies by documenting that the perpetrators of these schemes financially benefited from their fraudulent activities.

Currently, CI is involved in the following areas of health care fraud: false billings, mental health, chiropractic fraud, home health care, durable medical equipment fraud, staged accidents, pharmaceutical diversion, and patient referral (kickbacks) schemes.

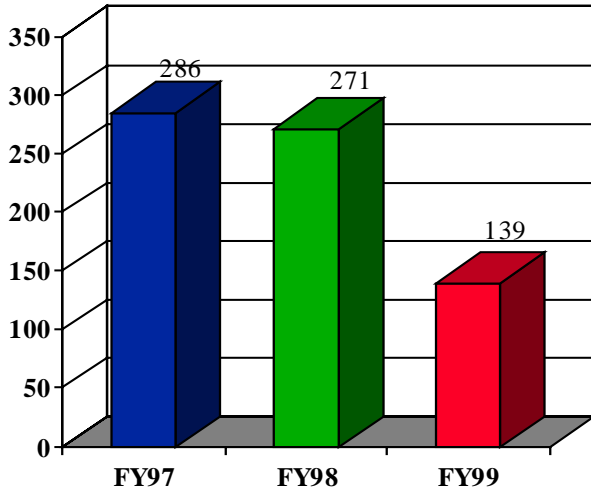
Typical health care fraud investigations involve complex issues, and are lengthy and labor intensive. Criminal Investigation has noticed a trend of specialized criminal organizations, such as Russian organized crime syndicates, being involved in health care fraud schemes that are defrauding millions of dollars from the government and private insurance carriers. To assist in combating this type of fraud, CI participates in DOJ-sponsored multi-agency task forces and works closely with several state agencies. These task forces capitalize on the strength and expertise of the participating agencies and have proven effective in dealing with health care fraud.

Criminal Investigation keeps apprised of industry changes and fraud changes through its participation in the National Health Care Anti-Fraud Association (NHCAA), and DOJ's Health Care Fraud Working Group and Managed Care Working Group.

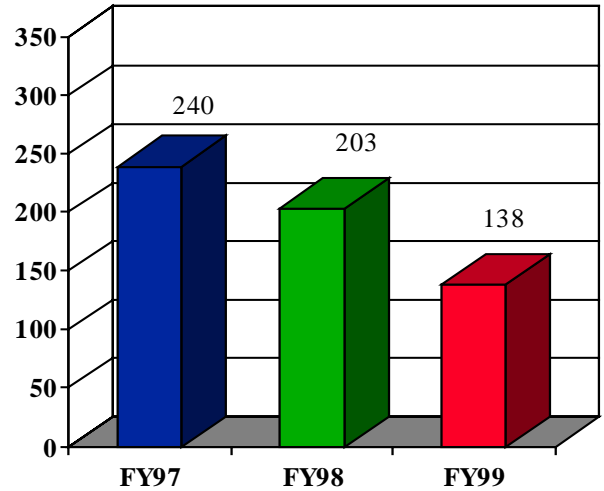
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Health Care Fraud

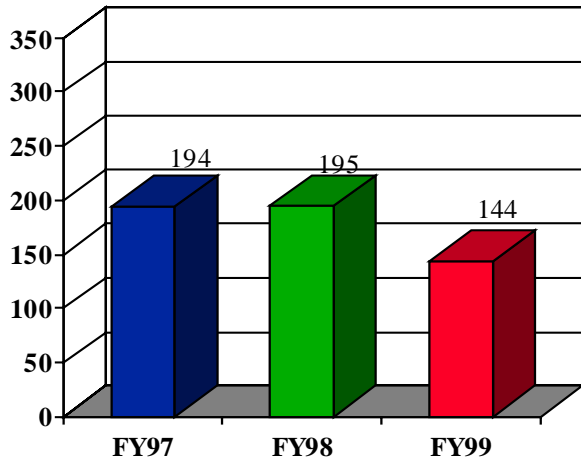
**Investigations Initiated**



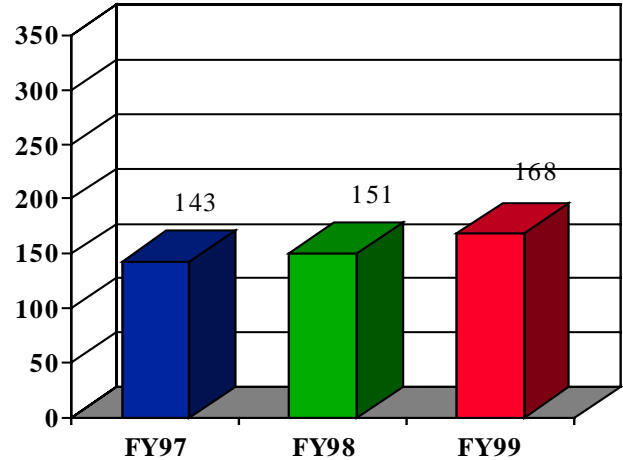
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Health Care Fraud Statistics	FY97	FY98	FY99
Investigations Initiated	286	271	139
Prosecution Recommendations	240	203	138
Indictments/Informations	194	195	144
Convictions	143	151	168
Incarceration Rate	75.8%	80.9%	80.1%
Avg. Months to Serve (w/Prison)	25	26	27
Avg. Months to Serve (all Sent)	19	21	22
Direct Investigative Time (DIT)	5.1%	5.4%	4.6%



# INSURANCE FRAUD

## Overview

Criminal Investigation's Insurance Fraud Program is a compliance effort designed to address criminal violations relative to insurance claims and fraud perpetrated against insurance companies. Fraud may occur during the process of selling, buying, underwriting or using insurance.

While there is no direct statute against insurance fraud, CI continues to play a major role in the detection, investigation and prosecution of insurance fraud. The most common violations within CI's investigative jurisdiction involve Title 26, tax and Title 18, money laundering violations. There are also Federal reporting requirements for insurance companies/agents who receive cash payments in excess of \$10,000 for any financial transaction. In those instances, a Form 8300 must be filed with the Internal Revenue Service.

The McCarran-Ferguson Act of 1945 reserved regulation of the insurance industry to the states. As a result, there is virtually no Federal role on the oversight of the insurance industry. Several states have passed laws that mandate insurance companies have specific plans to detect and prevent fraud. As a result, most insurance companies have created special investigative units to detect and investigate suspicious claims.

The annual cost of insurance fraud is in excess of \$85 billion.

The Coalition Against Insurance Fraud estimates that at least 10% of all auto, home and business insurance claims are either fraudulent or highly inflated

## Regulation

Regulation is usually the responsibility of a state insurance commissioner or insurance department. Regulation of solvency requirements; licensing of insurance companies, agents and brokers; setting policy forms and rates; resolving consumer complaints, and imposing administrative sanctions are some of the responsibilities of state regulatory agencies.

## Current CI Activities

Criminal Investigation is an active participant in the National Association of Insurance Commissioners (NAIC), which is comprised of state insurance commissioners and regulators, fraud bureaus, and industry specialists. Through the NAIC, legislation is proposed, anti-fraud tactics are developed and databases established to allow states to share information.

CI, together with the FBI, Postal Inspection Service, and the Department of Labor collaborated with the NAIC in the development of a criminal referral form to be used by the state insurance commissioners to report cases of major insurance fraud. NAIC has also established a website where the accomplishments of the various

working groups and committees are posted.

With the increasing globalization of insurance markets linking many countries and financial sectors together, CI has maintained its affiliation with the International Association of Insurance Agencies (IAIA). Criminal Investigation participates in multi-agency panel discussions and conferences to promote international cooperation to combat insurance fraud.

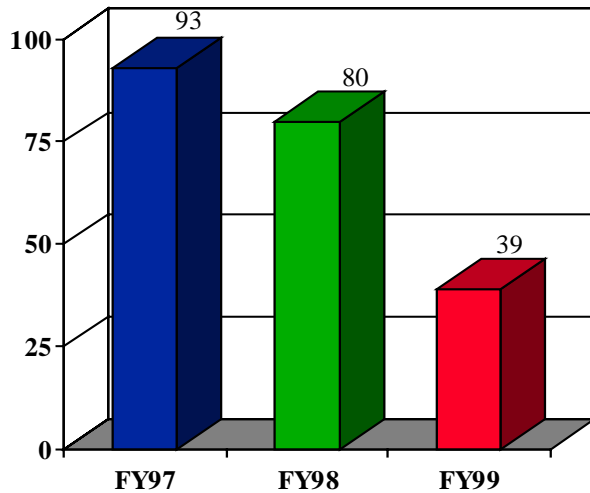
Criminal Investigation is actively involved in investigating a variety of insurance fraud schemes. Outside of the health care industry, personal injury cases resulting from staged automobile accidents continue to account for the majority of monetary losses in the insurance industry. Arson, as well as the continuing string of natural calamities have also led to the escalation of false claims involving property and casualty insurance.

The CI National Training Academy has established training to address emerging fraudulent trends in the insurance industry. One emerging trend involves Federal Crop Insurance Fraud. In these schemes, farmers claim losses on crops that were surreptitiously sold under fictitious or nominee names, or claims for nonexistent crops. Training material is available for CPEs and conferences.

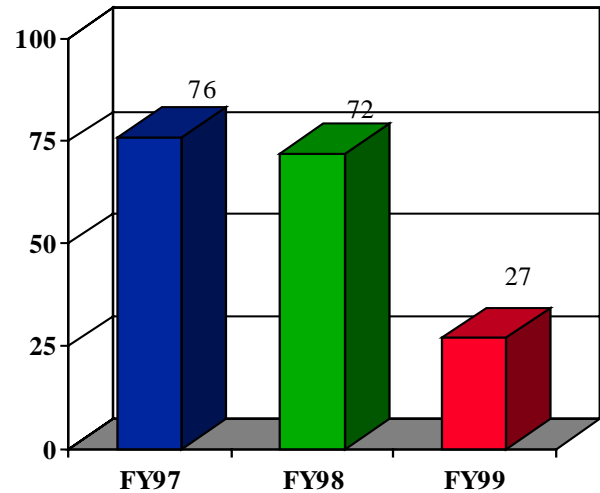
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Insurance Fraud

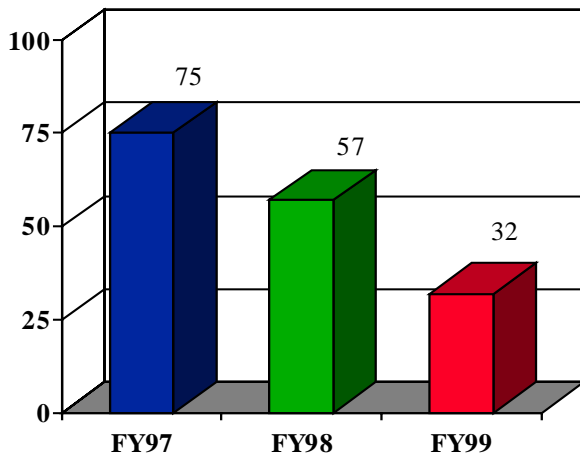
**Investigations Initiated**



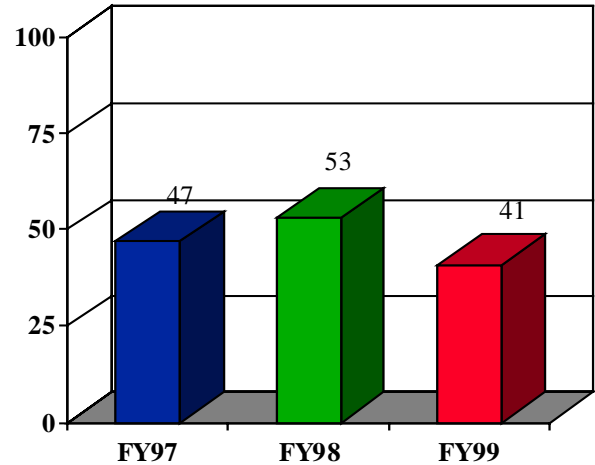
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Insurance Fraud Statistics	FY97	FY98	FY99
Investigations Initiated	93	80	39
Prosecution Recommendations	76	72	27
Indictments/Informations	75	57	32
Convictions	47	53	41
Incarceration Rate	83.3%	86.2%	90.0%
Avg. Months to Serve (w/Prison)	31	22	60
Avg. Months to Serve (all Sent.)	26	19	54
Direct Investigative Time (DIT)	1.0%	1.3%	1.5%





## PUBLIC CORRUPTION

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### Overview

During FY99, CI continued its investigations involving individuals who violate the public trust. The subjects of these investigations include both elected and appointed officials from all levels of government, including local, county, state, Federal, and foreign government officials.

Public Corruption investigations encompass a wide variety of criminal offenses including bribery, extortion, embezzlement, illegal kickbacks, entitlement and subsidy fraud, bank fraud, tax fraud and money laundering. Criminal Investigation concentrates its resources on the tax and money laundering aspects of these investigations in cooperation with other

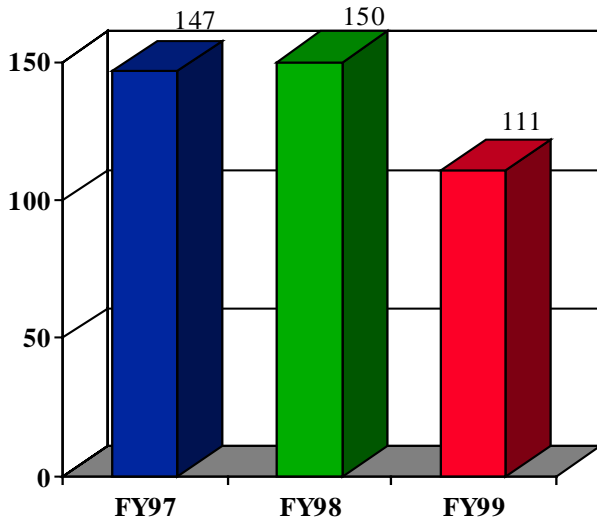
Federal, state, and local law enforcement agencies.

Criminal Investigation's expertise in conducting financial investigations, coupled with our jurisdiction over Title 26 criminal tax violations and related Title 18 and Title 31 violations has established our reputation as one of the leaders in the fight against public corruption.

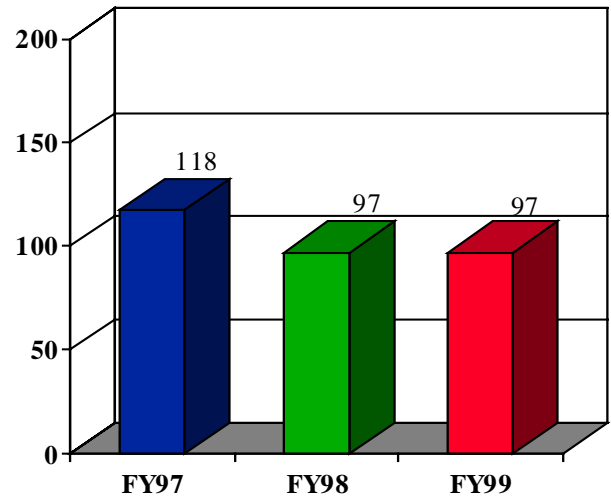
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Public Corruption

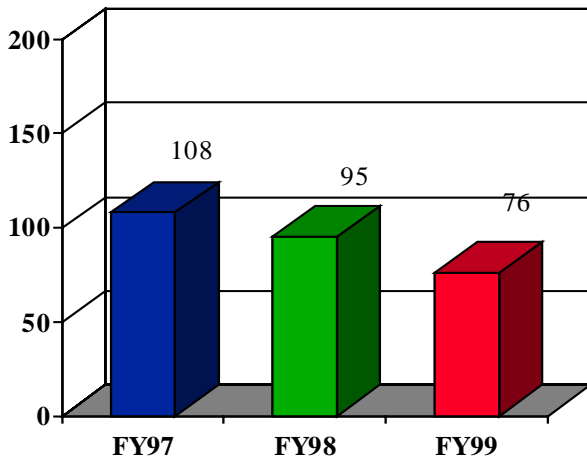
**Investigations Initiated**



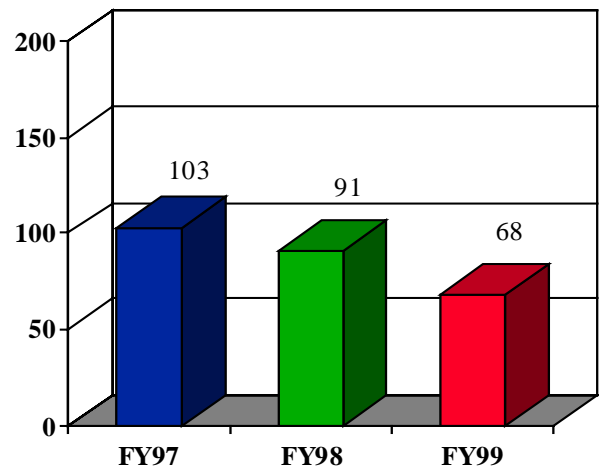
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Public Corruption Statistics	FY97	FY98	FY99
Investigations Initiated	147	150	111
Prosecution Recommendations	118	97	97
Indictments/Informations	108	95	76
Convictions	103	91	68
Incarceration Rate	74.3%	84.5%	79.2%
Avg. Months to Serve (w/Prison)	20	20	26
Avg. Months to Serve (all Sent.)	15	17	21
Direct Investigative Time (DIT)	3.0%	3.1%	3.3%



# QUESTIONABLE REFUND FRAUD

## Overview

The Questionable Refund Program (QRP), administered by Criminal Investigation (CI), is a nationwide multifunctional program established in January of 1977. The QRP was designed to identify fraudulent returns, stop the payment of fraudulent refunds and to refer identified fraudulent refund schemes to CI field offices. While the primary focus is on individual tax returns, business tax returns are also reviewed under the QRP.

Since its inception, the QRP has detected over \$1.4 billion in fraudulent refunds. In addition, QRP has been responsible for the identification of substantial abuse in other programs which has resulted in the savings of hundreds of millions of dollars from fraudulent schemes in abusive tax shelters and fraudulent claims for the Earned Income Tax Credit (EITC).

Questionable Refund Detection Teams (QRDT) are located in the CI Branch (CIB) at each of the ten service centers. The QRDT reviews questionable tax returns that have been identified by manual or computerized screening techniques. Schemes with criminal potential are referred to CI field offices for

investigation. Also, many returns are referred to the Examination or Collection Divisions, as well as to the Adjustments Section, for appropriate civil action. Questionable Refund Program Schemes are also detected through communications from Electronic Return Originators (ERO), financial institutions, return preparers and concerned citizens.

## Current Activity

### **Electronic Fraud Detection System**

The Electronic Fraud Detection System (EFDS) is a computer system located in the CIB at each of the ten service centers. The EFDS automates the computer identification output for potentially fraudulent Electronic Filed (ELF) tax returns, increases data available for analysis, and assists in the development of information relating to paper and ELF schemes detected by the QRDTs.

The EFDS not only provides a means to review potentially fraudulent ELF tax returns "on-line" but also allows queries of various databases to identify other returns with similar characteristics. Queries can be

performed on current-year ELF returns as well as many paper returns. The EFDS also contains tax account information and Employer Information Returns Processing (IRP) information for two preceding years.

During the 1999 Filing Season, EFDS successfully:

- Converted to the Windows NT computer operating system; and
- Implemented the Scheme Tracking and Referral System (STARS) for both QRP and the Return Preparer Program. This system provides the official statistics reported to CI management, GAO, TIGTA, Congress, etc. It also generates the referral package for QRP Schemes sent to CI field offices.

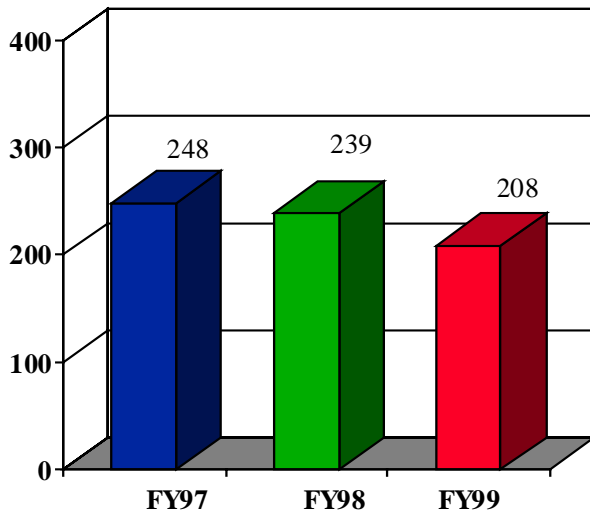
For the 2000 Filing Season, EFDS will:

- Roll-out to all CI District Offices;
- Contain additional data, e.g., BMF returns claiming refundable credits, and additional IMF return information.

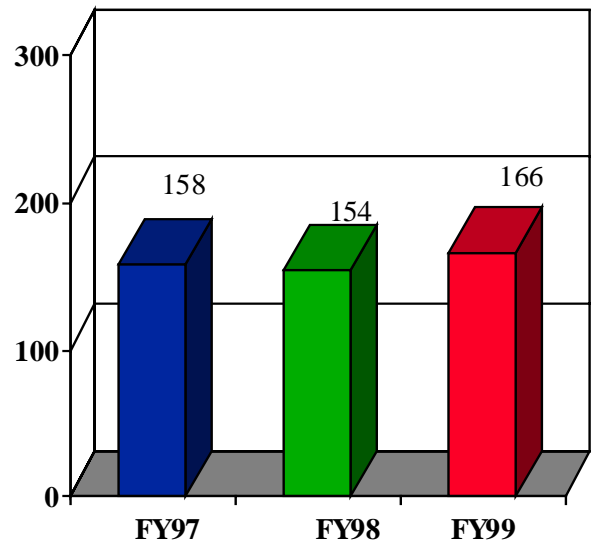
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Questionable Refund Fraud

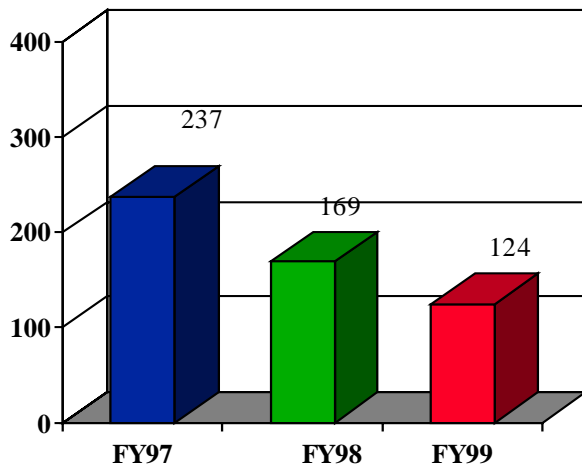
**Investigations Initiated**



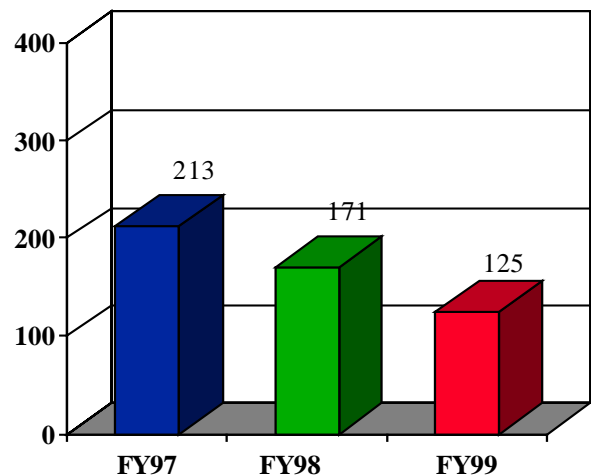
**Prosecution Recommendations**



**Indictments/Information**



**Convictions**

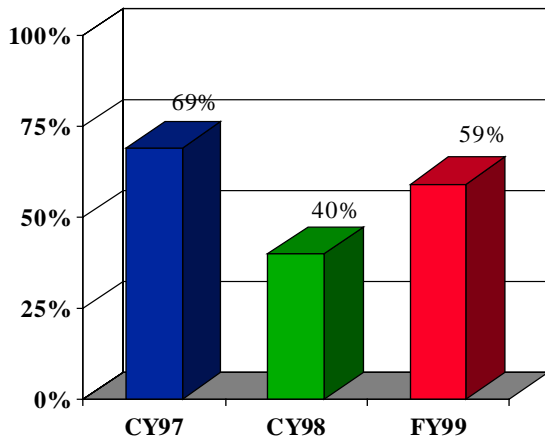


Questionable Refund Statistics	FY97	FY98	FY99
Investigations Initiated	248	239	208
Prosecution Recommendations	158	154	166
Indictments/Informations	237	169	124
Convictions	213	171	125
Incarceration Rate	80.7%	81.3%	76.7%
Avg. Months to Serve (w/Prison)	18	20	20
Avg. Months to Serve (all Sent)	15	16	16
Direct Investigative Time (DIT)	4.1%	4.7%	4.8%

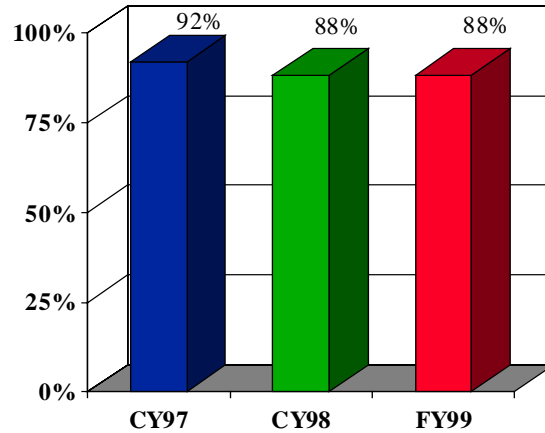
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Service Center QRP

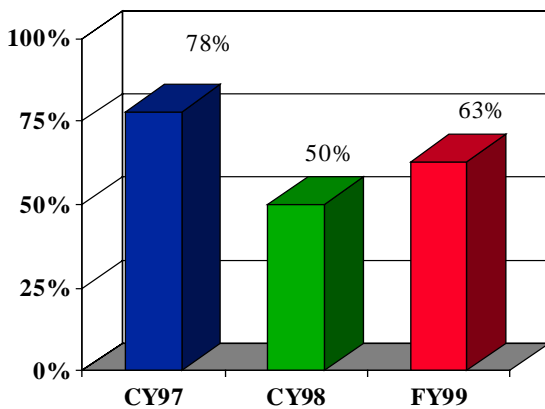
**ELF Fraudulent Returns  
Deletion Rate**



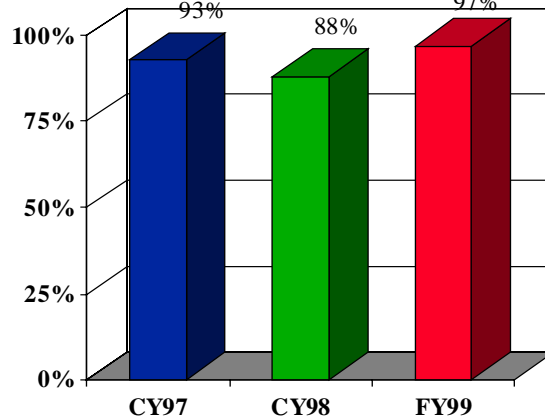
**Paper Fraudulent Returns  
Deletion Rate**



**ELF Fraudulent Refunds  
Deletion Rate**



**Paper Fraudulent Refunds  
Deletion Rate**



Questionable Refund Statistics	CY97	CY98	CY99
ELF Fraudulent Returns Deleted	69%	40%	59%
Paper Fraudulent Returns Deleted	92%	88%	88%
ELF Fraudulent Refunds Deleted	78%	50%	63%
Paper Fraudulent Refunds Deleted	93%	88%	97%

**Data for FY99 is for period January 1 through August 30, 1999**



# RETURN PREPARERS

## Overview

The Return Preparer Program (RPP) was implemented in 1996, and established procedures to protect the revenue by identifying, investigating and prosecuting abusive return preparers. The program was developed to enhance compliance in the return preparer community by engaging in enforcement actions and/or asserting appropriate civil penalties against unscrupulous or incompetent return preparers.

The advent of Electronic Filing (ELF) of income tax returns and the use of Refund Anticipation Loans (RAL) by electronic return transmitters has substantially increased the opportunity for preparers to commit fraud.

## Return Preparer Fraud

Return Preparer Fraud generally involves the preparation and filing of false income tax returns (in either paper or electronic form) by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. Preparers may also manipulate income figures to obtain fraudulent tax credits, such as the Earned Income Tax Credit (EITC).

The preparers' clients may or may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns. The preparers derive financial benefit from the fraud by:

- Diverting a portion of the refund for their own benefit;
- Increasing their clientele by developing a reputation for obtaining large refunds; or
- Charging inflated fees for the return preparation.

## Current Activity

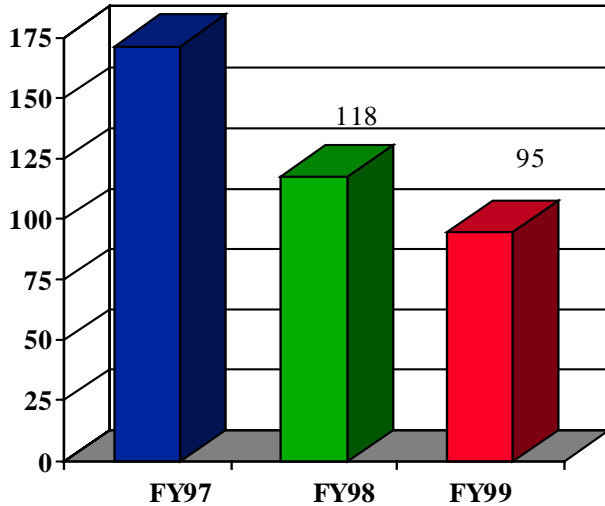
During FY2000, the IRS is striving to cut EITC abuse. Criminal Investigation and the Office of Refund Fraud (ORF), have developed a nation-wide initiative to identify and bring criminal cases against return preparers who have prepared significant numbers of returns fraudulently claiming the EITC. Through the analysis of filed returns, ORF and CI identified approximately 13,000 preparers who prepared 100 or more EITC returns during the tax year of 1998. The goals of this initiative are to investigate and prosecute meritorious cases that can be developed and to deter other preparers from abusing EITC by publicizing indictments and convictions.

# INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

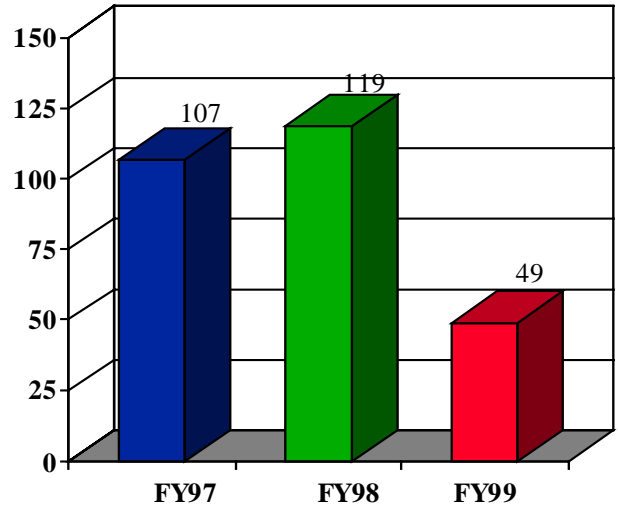
## Return Preparers

**Investigations Initiated**

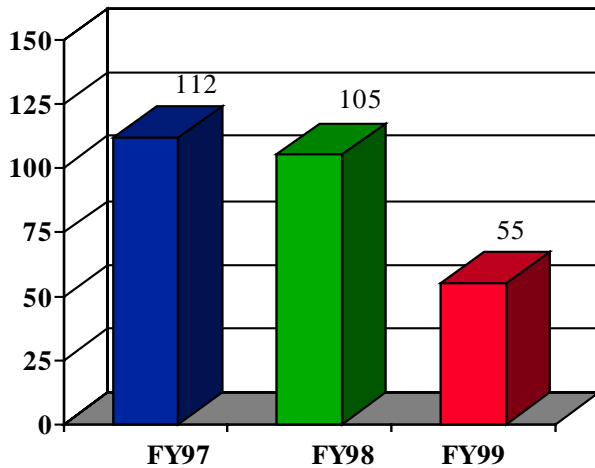
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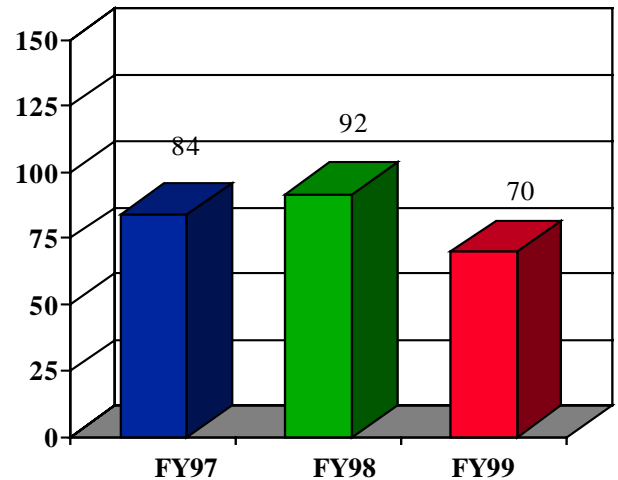
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Return Preparers Statistics	FY97	FY98	FY99
Investigations Initiated	172	118	95
Prosecution Recommendations	107	119	49
Indictments/Informations	112	105	55
Convictions	84	92	70
Incarceration Rate	89.7%	84.3%	88.2%
Avg. Months to Serve (w/Prison)	17	20	22
Avg. Months to Serve (all Sent.)	26	17	19
Direct Investigative Time (DIT)	4.1%	4.1%	4.2%



# TELEMARKETING FRAUD

## Overview

It is estimated that more than three million people are employed in the telemarketing industry with losses from fraudulent schemes in excess of \$40 billion per year. These schemes have been around since the 1930's, and are one of the largest segments of consumer fraud.

Advanced telecommunications, along with electronic banking, has led to unprecedented growth in the telemarketing industry. The Internet is also a productive tool for telemarketers. It allows them to reach a wide audience to market fraudulent credit repair schemes, business opportunities, pyramid investments and sweepstakes promotions in all 50 states.

During Fiscal Year 1999, the Federal Trade Commission (FTC) Consumer Sentinel system received over 51,000 telemarketing complaints.

These complaints involved 18,405 different company names. The total dollar loss from these complainants is estimated to be \$44,564,113.

## Current Activity

Criminal Investigation is combating telemarketing fraud by conducting investigations of fraudulent schemes in conjunction with multi-agency task forces. The majority of these task forces are located in southern and southwestern states and areas where traditional organized crime has a strong presence.

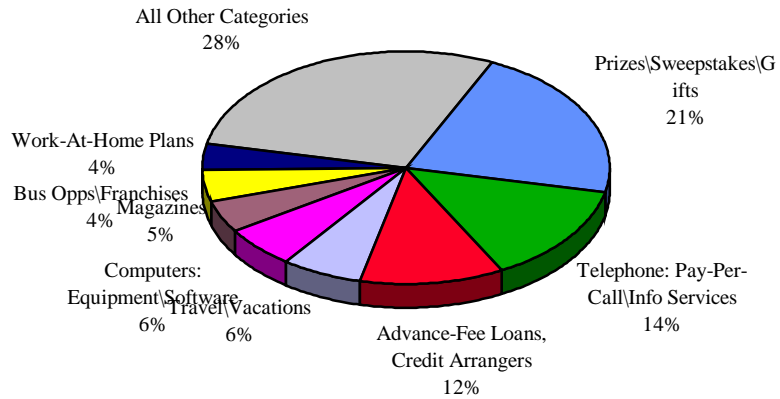
Criminal Investigation continues to employ financial investigative techniques in pursuit of fraudulent telemarketers. Criminal Investigation pursues illegal telemarketers by recommending prosecution for violations of Title 18, Section 1956, Money Laundering. In addition, CI recommends prosecution on more traditional Title 26 violations, including

income tax evasion, filing a false return, failure to file a return, aiding and abetting in the preparation of a false return, among others.

## Profile

The typical illegal telemarketer operates by exploiting the trust of consumers to whom they present an opportunity "too-good-to-be-true." These opportunities include cash, vehicles, vacations, jewelry, investments, donations to charity, participation in lotteries, or the opportunity to recoup losses from prior schemes. These "opportunities" are, in fact, too-good-to-be-true. Many times the merchandise or prizes are never delivered, or if delivered, are of minimal value and do not comport with claims made by the promoters.





Consumer Sentinel Telemarketing Complaints for Fiscal Year 1999 (October 1, 1998 - September 30, 1999)

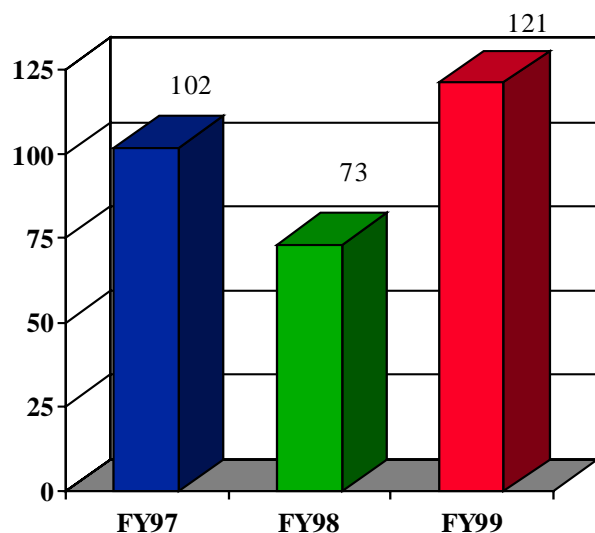
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Statistics courtesy of Federal Trade Commission

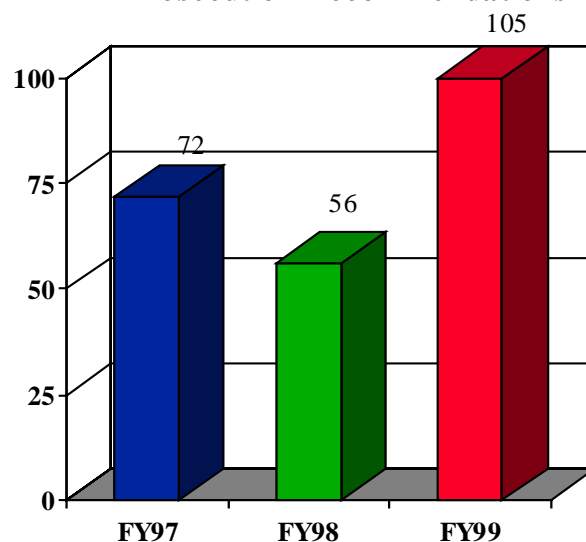
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Telemarketing Fraud

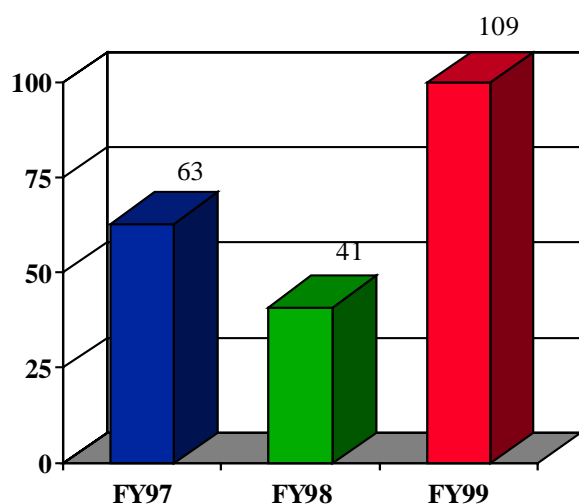
**Investigations Initiated**



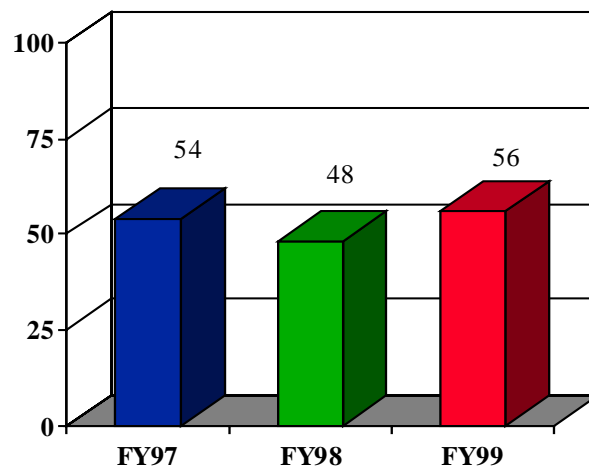
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Telemarketing Fraud Statistics	FY97	FY98	FY99
Investigations Initiated	102	73	121
Prosecution Recommendations	72	56	105
Indictments/Informations	63	41	109
Convictions	54	48	56
Incarceration Rate	81.2%	86.8%	94.9%
Avg. Months to Serve (w/Prison)	46	58	84
Avg. Months to Serve (all Sent.)	37	50	80
Direct Investigative Time (DIT)	1.4%	1.6%	1.5%



# NARCOTICS

## Overview

Criminal Investigation plays a unique role in the Federal law enforcement counter-drug effort with its specialized financial investigative expertise. The review of IRS-CI by the Honorable William H. Webster affirmed that "Narcotics trafficking is such an important matter for federal law enforcement that it is appropriate for the IRS to devote some of its resources to it, even if drug cases do not fall strictly within the tax compliance strategy plan." Criminal Investigation narcotics financial investigations fulfill dual purposes. To foster compliance and confidence in the tax system, CI conducts tax investigations of unreported drug proceeds involving a wide range of professionals and occupations. Secondly, CI, through the tracing of illicit drug proceeds, contributes to the prosecution of criminal organizations that undermine our national economy and pose a serious threat to our national interests.

Criminal Investigation's mission in narcotics law enforcement is to dismantle and/or disrupt significant narcotics trafficking and narcotics money laundering organizations through the investigation and prosecution of its members and associates, and the seizure and forfeiture of their profits. Criminal Investigation accomplishes this mission through the utilization of the criminal statutes over which it has jurisdiction - the Internal

Revenue Code, the Bank Secrecy Act and the Money Laundering Control Act.

Criminal Investigation has been involved in combating drug trafficking since 1919, and continues to investigate drug traffickers by pursuing tax, currency or money laundering charges against these individuals and their associates. The Money Laundering Control Act of 1988 gave CI additional seizure and forfeiture jurisdiction in narcotics-related money laundering investigations.

The President mandated the Director of the Office of National Drug Control Policy (ONDCP) to oversee the effort to combat illegal drugs. As part of that oversight authority, the Director of the ONDCP established a National Drug Control Strategy. This strategy directed agencies involved in counter-narcotics activities to focus their efforts on reducing the demand for drugs through treatment and prevention and by attacking and disrupting the drug supply through aggressive law enforcement and increased international cooperation. On September 23, 1999, the Treasury Department and the Department of Justice unveiled the Money Laundering Strategy of 1999. This strategy reflects a national commitment to a coordinated, effective fight against money laundering and other financial crimes. Criminal Investigation supports both strategies through the investigation and prosecution of domestic and international

narcotics traffickers and related money laundering organizations.

## Organized Crime Drug Enforcement Task Force

The Organized Crime Drug Enforcement Task Force (OCDETF) Program was created "to identify, investigate, and prosecute members of high-level drug trafficking enterprises, and to destroy the operations of those organizations." Criminal Investigation has been a participating member of OCDETF since its inception in 1982.

Without CI's financial investigative expertise, many of these criminal organizations would continue to flourish even though some key members are incarcerated. That expertise is widely recognized as invaluable in identifying and documenting complex financial transactions and money laundering schemes.

During FY99, CI participated in 44% of the OCDETF investigations initiated. As a result of the Webster Report, CI began emphasizing the significance of the OCDETF program and the need to target narcotics organizations that meet the high OCDETF designation standards.

## High Intensity Drug Trafficking Areas

The High Intensity Drug Trafficking Areas (HIDTA) Program was established by the Anti-Drug Abuse Act of 1988, to

provide assistance to Federal, state and local law enforcement agencies operating in areas most adversely affected by drug trafficking. The Director of the ONDCP was given oversight authority over the HIDTA Program. There are now more than 30 locations designated as HIDTA. Criminal Investigation continues to support the HIDTA Program with staffing and other resource commitments. As ONDCP continues to establish new HIDTA locations, CI will provide the financial investigative perspective necessary to meet the goals of the National Drug Control Strategy.

#### **Relationship to Money Laundering**

In FY99, 1,362 of the 1,495 (91%) subject criminal investigations initiated in the Narcotics Program involved money laundering or currency violations.

#### **Planning for the Future**

The Internal Revenue Service, as a whole, is in the midst of major changes, designed to improve the way IRS, including CI, accomplishes its mission. Although CI is re-emphasizing its focus on investigations of criminal violations of the tax code, CI will remain a significant participant in the Federal law enforcement community's counter-drug efforts. In developing narcotics money laundering investigations, CI will concentrate on the identification and prosecution of high level, criminal organization members and co-conspirators, with emphasis on quality, in-depth investigations that meet current OCDETF designation standards.

What does the future hold for the Narcotics Program? In order to identify these high level and sophisticated narcotics-

related investigations, CI will be implementing in FY 2000 Task Forces as a catalyst for the development of significant tax, narcotics and non-narcotics money laundering cases. Additionally, CI has identified two emerging issues in the narcotics arena that require orchestrated and coordinated focus. The Wire Remitter Services Project and the Bulk Transportation of Currency Project are two narcotics-related initiatives that will be implemented. Also planned for FY 2000 is CI's participation in the newly created money laundering section at DEA's Special Operation Division (SOD), the placement of a money laundering coordinator at the Office of National Drug Control Policy (ONDCP), and the participation of CI as an executive-level member of the new Counter-drug Intelligence Coordinating Group (CDICG).

#### **Narcotics as Percentage of Total Program**

	<b>Total</b>	<b>Narco</b>	<b>Percent</b>
Cases Initiated	3,952	1,495	37.8%
Pros. Recs.	3,120	1,161	37.2%
Indict/Informs	2,952	1,134	38.4%
Convicted	2,713	1,034	38.1%

#### **OCDETF Cases Initiated (Includes HIDTA/OCDETF)**

	<b>FY 97</b>	<b>FY 98</b>	<b>FY 99</b>
Cases Initiated	949	1,032	1,203
Pros. Recs.	849	848	944
Indict/Informs	793	817	915
Convicted	566	736	834

#### **OCDETF as Percentage of Narcotics Program (Includes HIDTA/OCDETF)**

	<b>NARC</b>	<b>OCDETF</b>	<b>Percent</b>
Cases Init	1,495	1,203	80.5%
Pros. Recs	1,161	944	81.3%
Indicts/Inf	1,134	915	80.7%
Convicted	1,034	834	80.7%

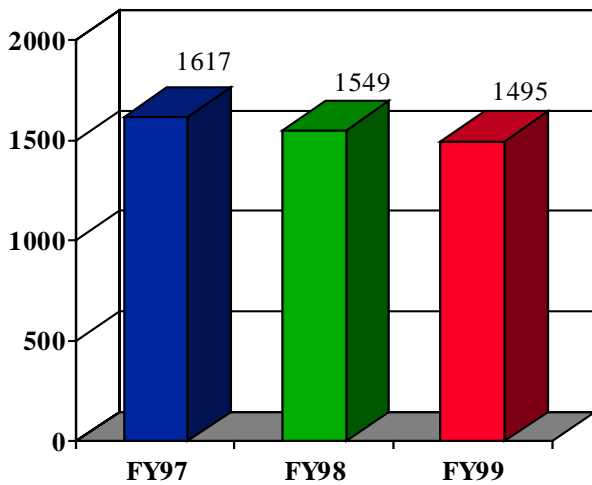
#### **Reimbursements in Millions**

	<b>FY 97</b>	<b>FY 98</b>	<b>FY 99</b>
OCDETF	\$35.3	\$36.3	\$37.0
HIDTA	\$1.0	\$0.97	\$1.0
TOTAL	\$36.3	\$37.0	\$38.0

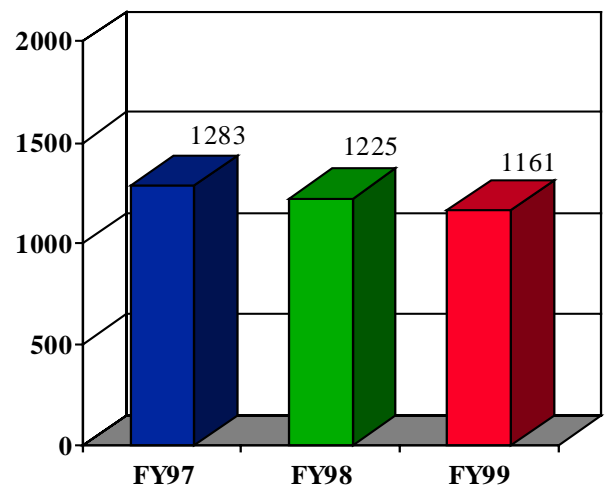
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Narcotics

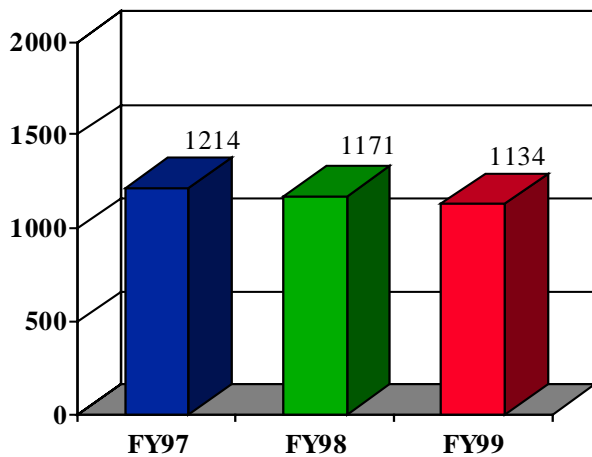
**Investigations Initiated**



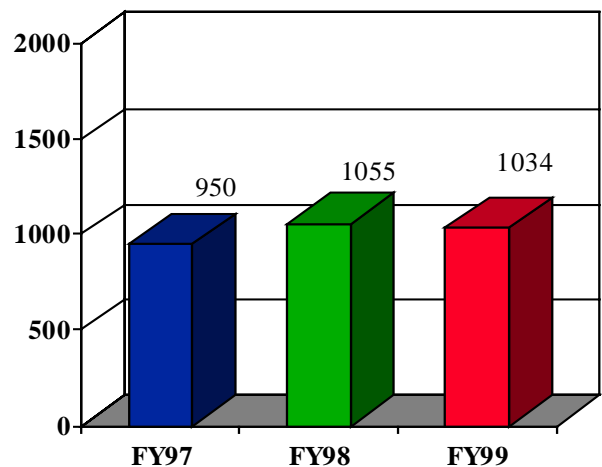
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Narcotics Statistics	FY97	FY98	FY99
Investigations Initiated	1617	1549	1495
Prosecution Recommendations	1283	1225	1161
Indictments/Informations	1214	1171	1134
Convictions	950	1055	1034
Incarceration Rate	89.0%	89.4%	88.7%
Avg. Months to Serve (w/Prison)	79	78	73
Avg. Months to Serve (all Sent.)	78	78	74
Direct Investigative Time (DIT)	23.6%	23.7%	23.8%



# EMERGING ISSUES

## Overview

Emerging issues are significant areas of non-compliance, which have been brought about by changing economic, political and/or social conditions. These areas of non-compliance, which warrant CI investigative efforts and assessment on a national basis, are identified through field input, administration and congressional concerns, or result from compliance initiatives of other IRS functions.

### **Entitlement & Subsidy Fraud (Non-Health Care)**

Entitlement and Subsidy Fraud is committed against non-health care government entitlement or subsidy programs. Federal and

state agencies administer various entitlement programs that are vulnerable to abuse. Any fraud against entitlement programs results in fewer dollars available to legitimate beneficiaries. Further, any fraud usually has a material impact on the administration of the nation's tax laws. There are millions of dollars expended on regulation, investigation, and prosecution of entitlement and subsidy fraud. Entitlement and Subsidy Fraud continues to be a significant area of non-compliance. Some major schemes are:

- The sale of food stamps for less than face value and their redemption for full face value;

- Fraudulent claims for crop disaster insurance payments or agricultural commodity price support payments under US Department of Agriculture (USDA) programs, and
- Fraudulent use of Federal funds and false claims associated with Low Income Housing projects.

### **Pension Fraud**

This area involves fraudulent activities related to under-funding pension plans or the embezzlement or misuse of pension fund assets.



# EMPLOYMENT TAX

## Overview

As of September 30, 1998, it is estimated that businesses owed the Federal government about \$49 billion in employment taxes. Employment taxes include the employer's and employee's share of tax that is paid over to the Federal government on wage-earning taxpayers.

Given the scope of the problem, it is believed that the use of the appropriate civil and criminal enforcement actions will make progress in deterring those that have a pattern of non-compliance in reporting and paying payroll taxes.

Perhaps the greatest area of concern for CI in this area is employment tax "pyramiding". Pyramiding of employment taxes is the fraudulent practice of companies withholding employment taxes from employees but failing to remit payment to the IRS. Businesses involved in pyramiding frequently file for bankruptcy to avoid payment for these liabilities, then start a new business under a different name and continue the pyramiding under the new company.

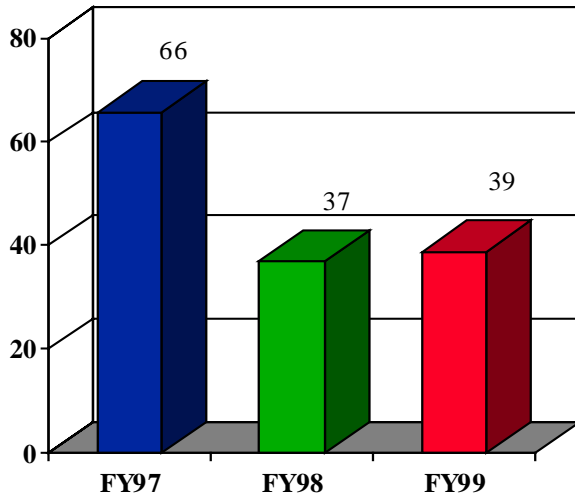
Another area of concern is "employee leasing" companies.

Employment leasing is the practice of contracting with outside businesses to handle all administrative, personnel, and payroll concerns for employees. In some instances, employee leasing companies fail to pay over to the IRS any portion of the collected employment taxes. These companies frequently dissolve during financial difficulties and file for protection under the bankruptcy statutes while failing to remit employment taxes to the IRS.

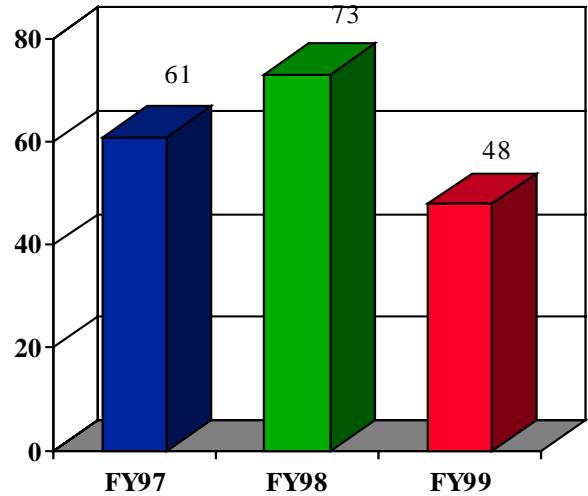
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Employment Tax

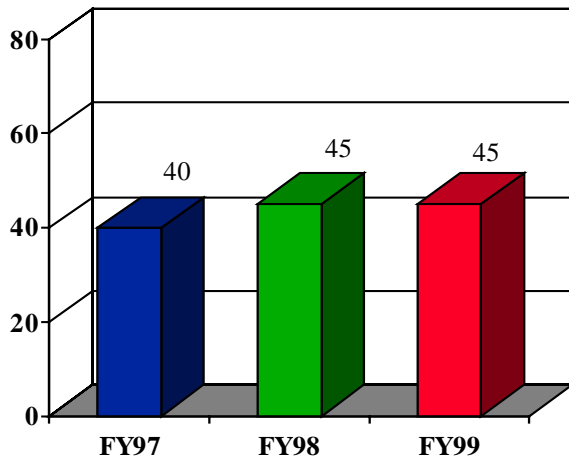
**Investigations Initiated**



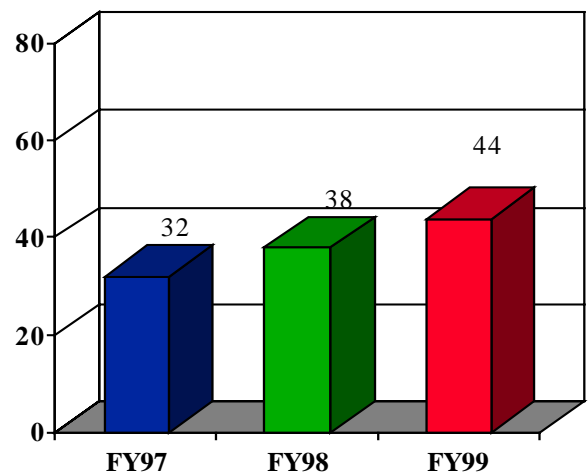
**Prosecution Recommendations**



**Indictments/Informations**



**Sentenced**



Employment Tax Statistics	FY97	FY98	FY99
Investigations Initiated	66	37	39
Prosecution Recommendations	61	73	48
Indictments/Informations	40	45	45
Sentenced	32	38	44
Incarceration Rate	81.3%	84.2%	93.2%
Avg. Months to Serve (w/Prison)	22	18	23
Avg. Months to Serve (all Sent.)	18	15	22
Direct Investigative Time (DIT)	1.2%	1.3%	1.4%





# NONFILER INITIATIVE

## Overview

One of the basic tenets of our tax system is the belief that all citizens comply with the requirements to file returns and pay taxes. Taxpayers who fail to file income tax returns pose a serious threat to tax administration and voluntary compliance. Their actions undermine public confidence in the Service's ability to administer the tax laws fairly and effectively. The nonfiler population has been increasing throughout the decade. Research studies estimate that by the tax year 2004, there will be at least 8.6 million nonfilers. To address the growing number of nonfilers in this country, IRS has implemented a cross-functional National Nonfiler Strategy. The overall goal of this strategy is to bring taxpayers back into compliance.

One component of the National Nonfiler Strategy is to provide assistance to nonfilers in resolving the issues that caused them to drop out of the system and to bring them back into compliance. Criminal Investigation's role in the National Nonfiler Strategy is the enforcement of the tax laws for individuals who are not responsive to outreach efforts. Criminal Investigation has devoted resources to identify these individuals and in the most flagrant cases, criminal prosecution has been recommended. Criminal Investigation's ability to investigate and prosecute flagrant cases and generate publicity relating to these prosecutions is an important compliance tool.

Historically, CI has been involved in projects aimed at identifying and investigating the egregious nonfilers in a variety of occupations and industries, including wage earners, accountants, lawyers, doctors, public officials, the self-employed, corporate officers and narcotics traffickers. Criminal Investigation has also been involved in investigating those nonfilers who belong to groups that espouse militant anti-government and anti-taxation philosophies.

## Direction/Future

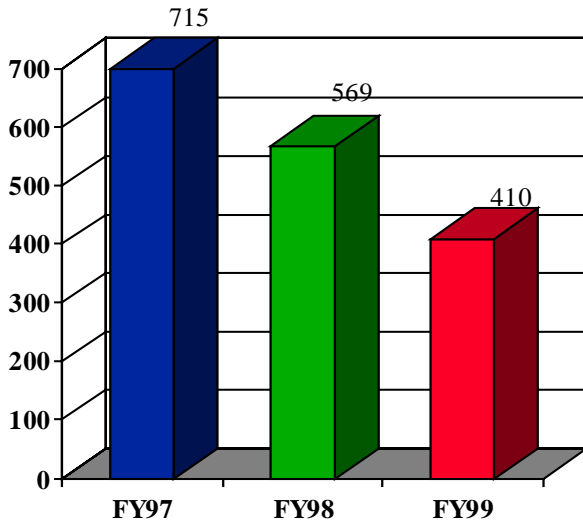
In establishing its nonfiler strategy goals, CI is committed to increasing resources to the prosecution of egregious nonfilers. The Nonfiler Strategic Initiative is an integral part of CI's recently implemented Interim Compliance Strategy. As stipulated in the strategy, CI will continue to play an important role in the Service's National Nonfiler Strategy. Criminal Investigation will be developing and investigating high impact investigations of nonfilers in various occupations and industries, as well as those nonfilers whose behavior is designed to undermine the tax system, including those individuals who file non-processable returns or employ frivolous arguments which the courts have repeatedly rejected. The prosecution of these individuals reconfirms CI's commitment to ensuring that everyone pays their equitable share of taxes.

Failure to file tax returns will continue to be a major tax compliance problem in the future. In an attempt to effectively address this problem, CI will be working jointly with the other IRS functions on nonfiler compliance projects.

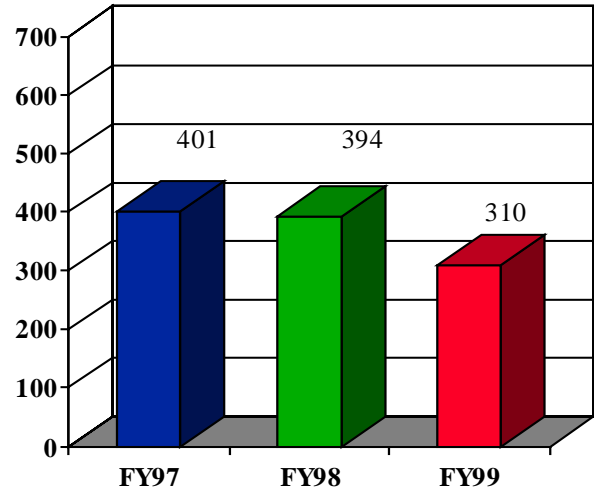
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# NonFiler Initiative

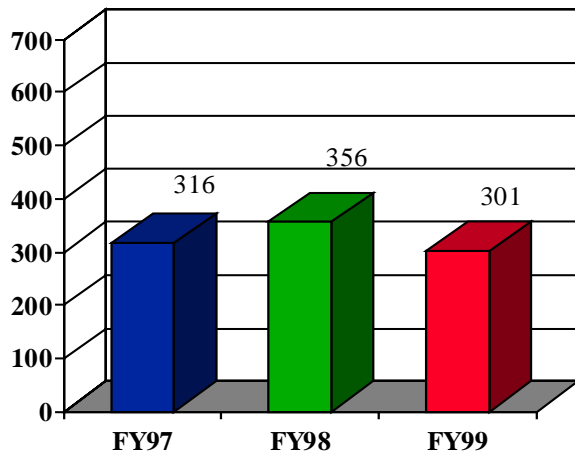
**Investigations Initiated**



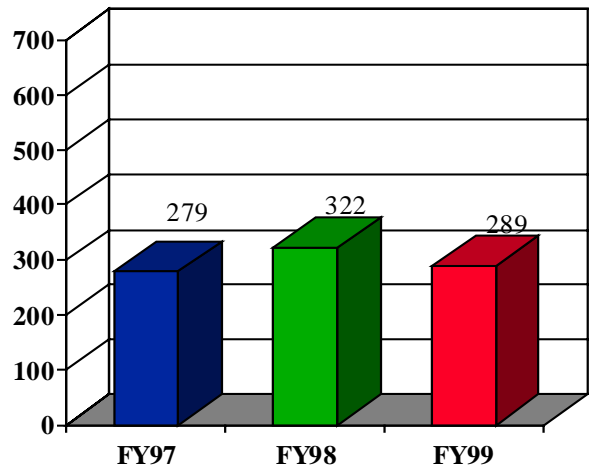
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Non-Filer Statistics	FY97	FY98	FY99
Investigations Initiated	715	569	410
Prosecution Recommendations	401	394	310
Indictments/Informations	316	356	301
Convictions	279	322	289
Incarceration Rate	77.5%	78.1%	78.7%
Avg. Months to Serve (w/Prison)	44	39	47
Avg. Months to Serve (all Sent.)	34	32	45
Direct Investigative Time (DIT)	11.0%	11.8%	12.4%



# ORGANIZED CRIME

## Overview

Since the days of Al Capone, special agents of the Criminal Investigation Division have played an important role in Organized Crime (OC) investigations. Our expertise in conducting financial investigations coupled with our jurisdiction over criminal tax offenses and related Title 18 and Title 31 statutes places us in an ideal position to help combat organized criminal enterprises when more traditional law enforcement approaches fail.

Organized crime refers to self-perpetuating, structured and disciplined associations of individuals who combine for the purpose of obtaining monetary gains or profits, either wholly or in part, through illegal means. These groups generally engage in such illegal enterprises as drug trafficking, gambling, loan-sharking, extortion, theft, arson, weapons trafficking, labor racketeering, pornography, prostitution and money laundering. They often use extortion, graft, corruption, violence or threat of violence to achieve their objectives. Historically, these groups have a strong leader to whom group members and associates owe loyalty, and to whom they pay a percentage of their profits.

## Direction/Future

While the La Cosa Nostra (LCN) or the "Mafia" represents the classic example of a traditional OC group, in recent years CI, in

concert with other law enforcement agencies, has devoted resources to investigating emerging OC groups. These include such groups as Asian, Russian, and Nigerian OC groups, outlaw motorcycle gangs, Jamaican Posses and street gangs. Criminal Investigation often investigates organized crime groups such as those listed above as part of a Strike Force or Interagency Task Force Effort.

Organized Crime groups have been involved in motor fuel excise tax evasion schemes, health care and insurance fraud, as well as food stamp fraud, identity theft, telemarketing fraud, stock market manipulation and financial institution fraud.

During the past several years, Russian criminal elements have been obtaining interests in offshore banks to facilitate their money laundering activities. They have become very sophisticated in their efforts to move profits from their international criminal operations. Russian organized crime groups have been linked to the LCN and the Colombian cartels in cases involving fuel tax fraud, narcotics and stock manipulation. Nigerian groups have been involved in identity theft, insurance fraud and questionable refund schemes.

As a result of aggressive Federal enforcement efforts, many of the most notorious traditional OC leaders have

been convicted, including leaders of Russian OC groups who had inundated the fuel industry with excise fuel schemes in the 1980's.

In recent years OC groups have been interacting with each other on a global scale. They are taking advantage of the technology available through the use of the Internet and other electronic communication systems and, as a result, have become more sophisticated in their criminal enterprises.

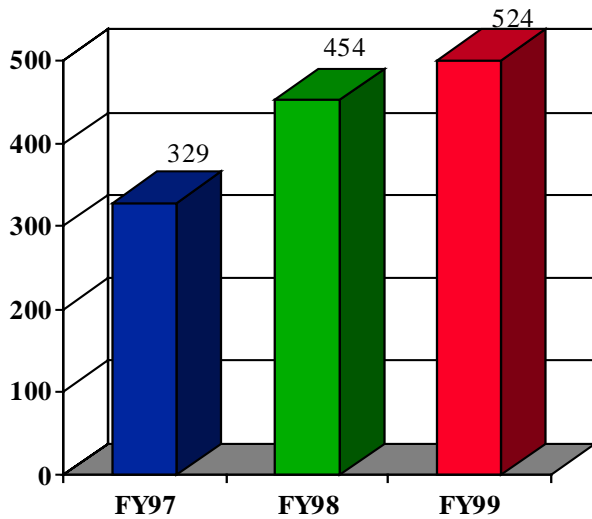
International organized crime has recently begun to take on national importance and now constitutes a significant worldwide problem - one, which requires a joint effort among all law enforcement agencies worldwide.

Several years ago, President Clinton issued a Directive which called upon all Federal law enforcement agencies to review and assess the threat of international organized crime groups and make a concerted effort to combat trans-national crime. In response to the President's directive, multi-agency task forces have been established throughout the United States as well as internationally to target organized crime.

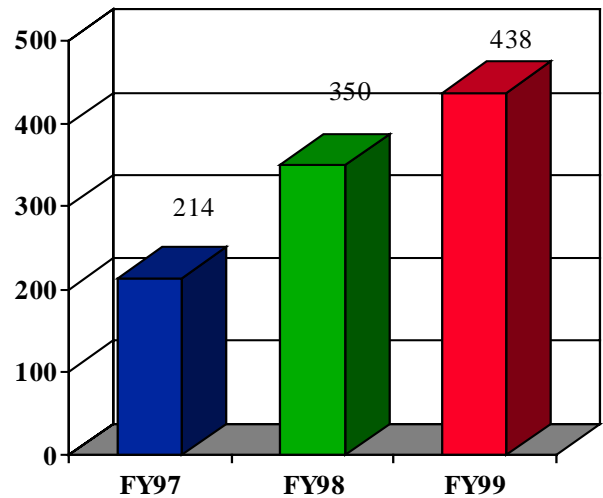
## INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Organized Crime

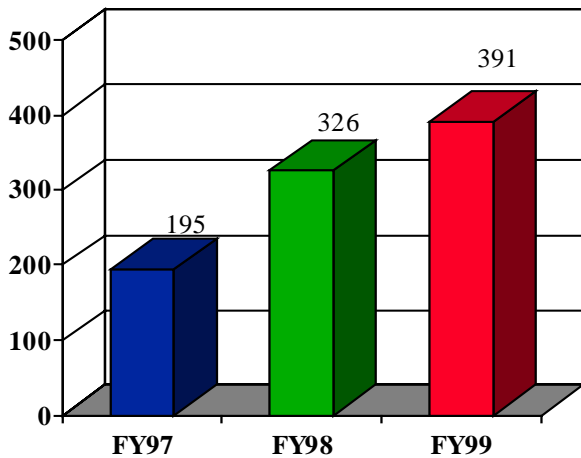
**Investigations Initiated**



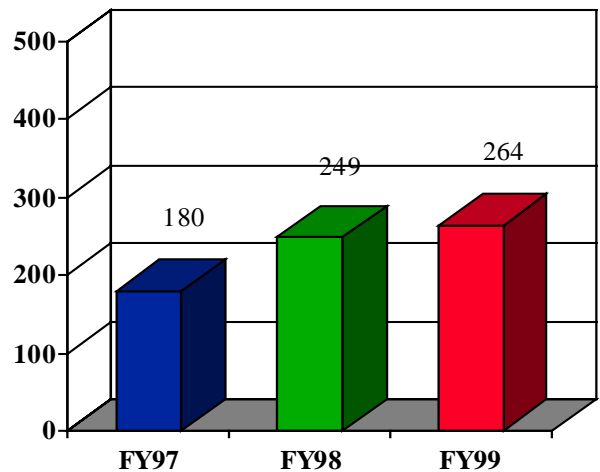
**Prosecution Recommendations**



**Indictments/Informations**



**Convictions**



Organized Crime Statistics	FY97	FY98	FY99
Investigations Initiated	329	454	524
Prosecution Recommendations	214	350	438
Indictments/Informations	195	326	391
Convictions	180	249	264
Incarceration Rate	86.7%	81.3%	86.3%
Avg. Months to Serve (w/Prison)	42	59	61
Avg. Months to Serve (all Sent.)	36	50	55
Direct Investigative Time (DIT)	4.4%	5.4%	7.0%



# ASSET FORFEITURE

## Overview

The Asset Forfeiture Program is one of the most effective tools in the Federal government's Anti-Crime Strategy against drug trafficking, money laundering and organized crime. In conjunction with other Federal, state and local law enforcement agencies, CI uses asset forfeiture statutes to dismantle criminal enterprises by seizing and forfeiting their assets. Most of CI seizures and forfeitures are the result of Title 18 and Title 31 money laundering and currency investigations. Criminal Investigation has statutory authority for Title 26 forfeitures but these represent a very small portion of our program.

## Seizures & Forfeitures

With Fiscal Year (FY) 99 seizures in excess of \$80 million, CI's asset forfeiture program is active and strong. The asset forfeiture program continues to emphasize the quality of the seizure/forfeiture process rather than the number of seizures effected. The number of CI seizures decreased from 1065 in FY 98 to 740 in FY 99. While the number of assets seized has declined, the average value of individual seizures has increased significantly during the past two years. For FY 99, the average seizure was \$112,676, in FY 98 it was \$109,189 and in FY 97, it was \$36,005. The total value of assets forfeited during FY 99

was approximately \$47 million, which represents an increase over our FY 98 forfeitures of approximately \$44.4 million.

Criminal Investigation initiated seizure investigations in a wide range of criminal investigations, including narcotics, money laundering, organized crime, health care, telemarketing and numerous other areas. The following are examples of investigations resulting in significant seizures/forfeitures:

### **Thai Smuggling Operation**

As a result of a joint investigation by CI, U.S. Customs and D.E.A., the leader of the largest and longest operating Thai marijuana smuggling group in Oregon was sentenced to 234 months imprisonment after pleading guilty to money laundering charges. The subject and his associates, who have all pleaded guilty, are alleged to have laundered more than \$11 million during the 12-year life (1987-1999) of the business. During an undercover operation, the subject provided to undercover agents, approximately \$6 million dollars, in cash, as payment for past drug shipments. This, and an additional, \$2.4 million, was seized when the subject approached them about sending this money to an associate in Hong Kong. A final attempt to smuggle 72 tons of marijuana into the US was thwarted by an undercover off-load crew consisting of federal agents.

The subject then fled to Switzerland where the Swiss confiscated and later forfeited \$2.3 million from an account he had in Switzerland. In addition, stocks and jewelry valued at approximately \$1 million dollars were seized and forfeited from the subject's home.

### **Narcotics/Money Laundering**

A multi-jurisdictional task force comprised of IRS-CI agents from the Brooklyn & Northern California Districts, and DEA agents from their New York and San Francisco field offices were responsible for criminal prosecution of two interior designers who laundered millions of dollars in drug money for Cali cartel leaders. The two designers used their business to receive and launder drug proceeds while performing design services for the Cali Cartel. During the investigation, search warrants were issued which led to several safe deposit boxes containing in excess of \$500,000 in cash. In February of 1998, the two designers were convicted on money laundering and Rico conspiracy charges. One designer was sentenced to 48 months incarceration while the other was sentenced to 68 months. A final order of forfeiture was entered on March 4, 1998, wherein the defendants forfeited approximately \$6 million in cash, vehicles, real estate and other real property.

## **Organized Crime**

### **Garbage Hauler**

In February of 1999, a husband and wife, operators of a "carting company" (solid waste removal service), pleaded guilty to Racketeer Influenced and Corrupt Organization (RICO) conspiracy, criminal forfeiture statutes and income tax evasion charges. The husband was sentenced to 78 months imprisonment, ordered to pay the IRS \$599,279.00 in income taxes, and forfeited \$6.9 million. The wife pleaded guilty to income tax evasion and agreed to the taxes and forfeitures imposed upon her husband. The investigation disclosed that the husband, his wife and son, and a multitude of "others" (as stated in the indictment) are members of the Colombo Crime Family of New York. The subjects were involved in a scheme to maintain control of the Long Island carting industry for the organized crime families of the New York area. The scheme involved the use of nominee corporations and individuals, along with fictitious payments and contracts. The scheme disguised the true owners of the company who operated under an Islip, NY carting license. The city of Islip had banned the subjects from doing carting business in Islip after they pleaded guilty to bribing city officials and workers to gain the necessary operating permits. The subjects did not dump the waste at the city dump as required by city ordinance. This denied the city of Islip income from dumping at the city facility and caused the city an economic hardship. This investigation was conducted jointly with the FBI.

## **Equitable Sharing**

Most of IRS-CI seizures and forfeitures are the result of joint investigations worked with other federal, state and local law enforcement agencies. Additionally, CI worked a substantial number of joint investigations with the cooperation of foreign law enforcement agencies. As a result of these joint investigations, CI paid over \$19.5 million to foreign, federal, state and local law enforcement agencies. In addition, numerous seized vehicles were shared with Federal and State agencies and placed into official law enforcement use.

### **Weed & Seed Program**

The Weed & Seed Program is a component of the equitable sharing process by which forfeited property is transferred to non-profit organizations for the purpose of improving the quality of life for individuals or communities benefited by the organization. The West Virginia case cited below is an excellent example of what asset forfeiture can do to improve our communities.

### **Seized Strip Bar Becomes Town Hall**

The US Attorney for the southern District of West Virginia, CI Chief, District Director of the Virginia-West Virginia District, and officials of the West Virginia State Police presented the Town of Jefferson with title to a strip club that will become a town hall. This property was seized and forfeited to the government as a result of a joint investigation of a prostitution ring by the West Virginia State Police and CI. The West Virginia State Police

agreed to forego receiving its share of the property and to transfer the property to the Town of Jefferson. Since its creation, the Town of Jefferson has not had a regular place from which to operate or conduct its official business. The town government has committed funds to renovating the building and has received several commitments from individuals and businesses to contribute supplies and services to make the building useable as a town hall.

### **Reverse Asset Sharing**

Internal Revenue Service-Criminal Investigation continues to be a key partner in working with Department of Justice (DOJ) law enforcement agencies. As a result of IRS-CI's joint investigative and seizure activities with DOJ agencies, the Treasury forfeiture Fund collected over \$8.86 million in reverse sharing assets. Criminal Investigation's contribution represents approximately 70 percent of the \$12.53 million in reverse sharing collected by the Treasury forfeiture Fund in FY 99. The size of IRS-CI's sharing receipts is recognition by Justice agencies of the value of the financial expertise CI brings to these investigations. Reverse sharing occurs when CI files an equitable sharing request with DOJ or the US Postal Service based on our efforts in joint investigations.

### **Treasury Forfeiture Fund**

Criminal Investigation continues to be a major source of revenue for the Treasury Forfeiture Fund, contributing over \$51.62 million to the fund. Besides the U.S. Customs Service, who has

a large interdiction role, CI is the largest contributor to the Treasury forfeiture Fund.

To support asset forfeiture operations, CI received more than \$38 million from the Treasury forfeiture Fund. Among other things, these funds were used to pay CI forfeiture personnel, contract employees, District and Headquarters training seminars, investigative expenses as well as liens, mortgages and remissions relative to seized property. Of the \$38 million, CI disbursed over \$800,000 to State/Local law enforcement agencies to reimburse them for overtime/travel and other expenses incurred in joint investigations. Additionally, over \$1.5 million was provided for CIS 2000 training and equipment.

Criminal Investigation also received almost \$6.8 million in Super Surplus distributions from the Treasury Forfeiture Fund. A Super Surplus may be declared by Treasury Executive Office of Asset Forfeiture (TEOAF) from surplus revenues after forfeiture expenses and fund reserves are considered. Super Surplus funds are used for law enforcement purposes. The \$6.8 million was used to purchase \$2.0 million in enforcement vehicles and radios, \$4.0 million for ADP investigative equipment, and approximately \$750,000 of enhancements for CI's National forensic Laboratory.

### **AFTRAK**

The Asset Forfeiture Tracking System (AFTRAK) continues to evolve and undergo change to enhance the tracking of seized and forfeited assets, and to provide the necessary financial

statements required for Treasury. The AFTRAK Working Group was formed last year to assist in the development of a new system. This task is being accomplished through the implementation of formal procedures and blueprints of the various seizure and forfeiture processes.

In January 2000, the Asset Forfeiture Section will be releasing new and revised seizure/forfeiture inventory reports. A Transcript Report has been developed to aid the districts in ensuring the accuracy of their data by allowing them to see all the data captured by AFTRAK. The section will also be releasing a new standard form to replace the current forms 4008 and 4008S. The layout of the forms will coincide with the input screen, which will aid in data accuracy.

During this same time, we are working with the TEOAF in the development of FASTRAK that will be an enhancement to AFTRAK. This will allow all Treasury Agencies to use one system for tracking purposes. The FASTRAK system will receive seizure data from all the Treasury agencies and EG&G to produce timely, reliable and complete information on all assets in the Treasury forfeiture program.

### **Training**

Seminars sponsored by TEOAF, the Department of Justice and the Headquarters Asset Forfeiture and Narcotics Section were provided to CI management, Asset Forfeiture Coordinators (AFC), field agents and contract employees. The participants were updated on current legal issues, policies,

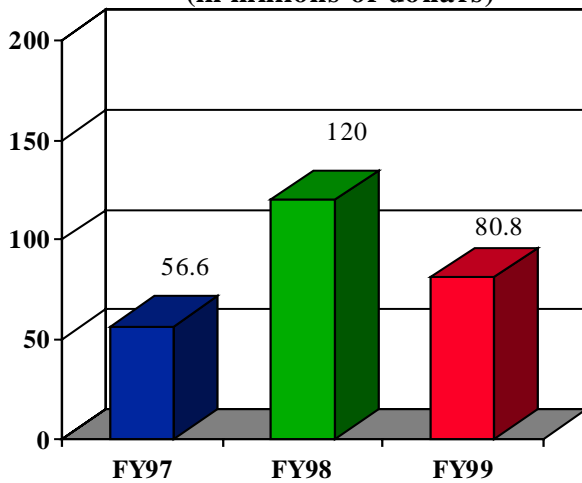
procedures, and asset management. In August, TEOAF hosted an asset forfeiture seminar providing CI managers and agents the opportunity to train and interact with other Treasury Bureaus. The Department of Justice conducted seminars throughout the year offering two forums, Asset Forfeiture and Financial Investigations and Asset Forfeiture component Seminars. These seminars offered a curriculum for both experienced Federal agents and prosecutors and those newly exposed to asset forfeiture and financial investigations.

In August, headquarters Asset Forfeiture sponsored an Advanced Asset Forfeiture Training Conference for AFCs and contract employees. Discussions and lectures were given on the AFTRAK system, forfeiture trends, legal issues, and CI's involvement in the international arena. In October 1998, District AFCs received Contracting Officer's Technical Representative (COTR) Training. Starting with FY 99, all of CI's AFCs are required to be COTR trained. This training allows the AFCs to task the National Seized Property Contractor to perform contract services.

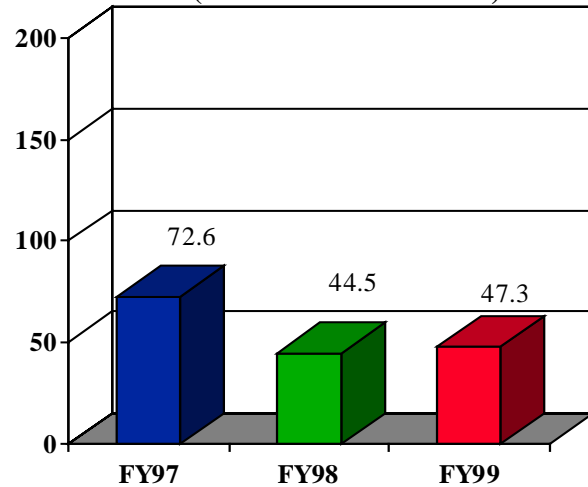
INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Asset Forfeiture

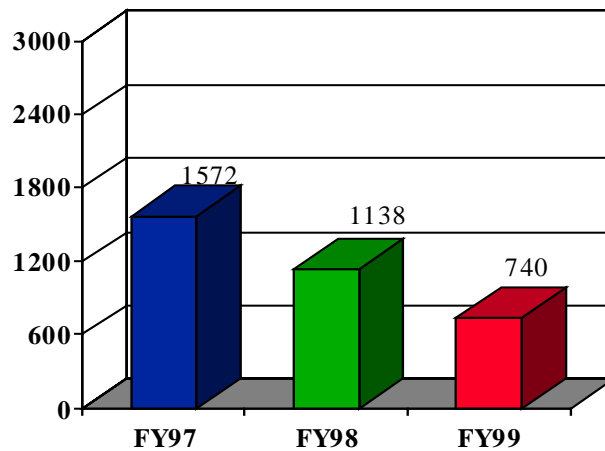
**Fiscal Year Seizures**  
(in millions of dollars)



**Fiscal Year Forfeitures**  
(in millions of dollars)



**Number of Seizures**





# Treasury Enforcement Communications System (TECS)/



## National Crime Information Center (NCIC)

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### Overview

The Treasury Enforcement Communications System/National Crime Information Center (TECS/NCIC) is a part of enforcement systems within the Asset Forfeiture and Narcotics Section.

TECS provides access to the Federal Bureau of Investigation's (FBI) National Crime Information Center (NCIC) and the National Law enforcement Telecommunications Systems (NLETS) with the capability of communicating with state and local enforcement agencies. NLETS provides access to motor vehicle information and state criminal history information.

### Highlights

The SNA server is up and running under the NT 4.0 environment. This new method of accessing TECS has replaced dedicated terminals, CITAC, and the Jupiter access located in the service centers. The SNA server will have the ability to view images, capture and download images to documents, as well as numerous other features.

### Wanted Persons

The CI staff recently completed an audit of the NCIC program in February 1999. Criminal Investigation was in compliance in all areas of FBI regulations except for the timeliness of entries into the NCIC system. Current FBI regulations require that all warrants be entered into NCIC within 24 hours of issuance. All entries must be submitted to CI via fax or e-mail immediately. An approved memorandum and supporting documentation should follow the draft request.

### Joint Wanted Person Effort with the U.S. Marshals

Criminal Investigation, signed a Memorandum of Understanding (MOU) with the U.S. Marshals on December 9, 1999. The MOU will assist CI with the process of apprehending wanted persons. Criminal Investigation will retain primary apprehension responsibility on all felony arrest warrants resulting from investigative jurisdiction. Criminal Investigation may delegate primary apprehension responsibility to the U.S. Marshal via written request. The Marshals will assume administrative responsibility for all NCIC entries, removals, and will be the 24-hour contact for all warrant confirmations. Entries will not be made on sealed indictments, John Doe warrants,

or any case that does not have sufficient data for the minimum NCIC entry. All IRS wanted persons would continue to require entry into the TECS system.



# UNDERCOVER OPERATIONS

## Overview

An undercover operation is a law enforcement technique whereby an agent acting under an assumed identity is placed inside the suspected criminal enterprise. The perpetrators of the criminal enterprise are not aware that they are dealing with a government agent. Consequently, the primary purpose in utilizing this technique is to detect and expose the criminal activity by acquiring relevant evidence for criminal prosecution.

Criminal Investigation utilizes the undercover technique in significant financial investigations. This technique is used when it is not possible to obtain the desired evidence through less-intrusive investigative techniques. As such, this technique is not routinely used in CI's investigations. As expected, undercover operations are extremely sensitive and potentially dangerous. Therefore, prudent planning and careful management is critical to the success of an undercover operation and equally paramount is the safety and security of the undercover agent.

The undercover technique is used only in criminal investigations. Only

special agents are authorized to participate in undercover activities and assigned as undercover agents. Undercover agents participating in the undercover program undergo specialized training and attend CPE conferences for updates and awareness of upcoming trends in undercover operations.

Undercover agents are assigned to particular undercover operations by a Regional Undercover Program Manager (RUPM). The Directors of Investigation (DI) in each of four regions have at least one RUPM on their staffs who has administrative control of undercover agents assigned to their regions. The RUPMs have the primary responsibility to monitor and assist in undercover operations. Specifically, the RUPMs assist case agents in formulating the undercover request, presenting the request to their respective DIs for approval, and coordinating complex undercover operations where more than one undercover operative is utilized. Additionally, the RUPMs participate in all pre-operational meetings and are responsible for preparing a detailed report of ninety (90) day reviews for each undercover

operation within their regions.

At the national level, the undercover program is managed by the Office of Special Investigative Techniques (SIT). SIT is part of the National Operations Division and is located in Washington, D.C. SIT processes and provides technical assistance regarding field requests for the use of special investigative techniques including, not only undercover operations, but also, pen registers, consensual monitoring, and non-consensual monitoring.

When an undercover agent is assigned to an undercover operation, a contact agent is also assigned. The primary responsibility of the contact agent is to oversee the safety and security of the undercover agent while on assignment. Additionally, the contact agent accounts for funds that are approved for the undercover operation. During this fiscal year, the Webster Review Team conducted a top-to-bottom review of CI. One aspect of this review focused specifically on CI's special investigative techniques, i.e. undercover operations. The review team's primary focus was to determine whether CI was using this

technique legally, responsibly, and in conformity with law enforcement standards and practices. The review team concluded that "...there is no reason to criticize or alter the current functioning of CI undercover operations." Further the Webster Review Team stated that "CI engages in undercover operations responsibly, effectively, and in accordance with its own prescribed policies."

#### **Approval Of Operations**

Criminal Investigation undercover operations are classified as either Group I or Group II. Group I operations include the most sensitive undercover operations conducted by CI. Undercover operations that are anticipated to last longer than six months and have anticipated costs in excess of \$10,000 are classified as Group I undercover operations. Additionally, undercover operations that fall into any one of sixteen sensitive areas outlined in the Internal Revenue Manual are classified as Group I undercover operations regardless of duration or cost. All Group I operations must be approved by the Assistant Commissioner (CI) Group II undercover operations are those lasting six months or less and costing \$10,000 or less. Group II undercover operations are approved by the DI.

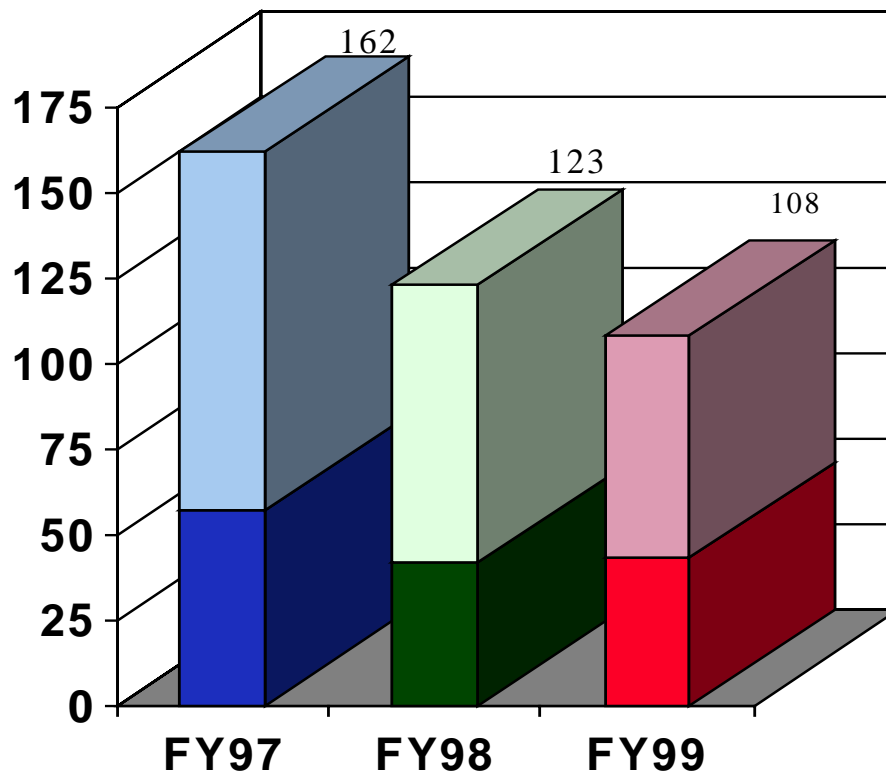
Prior to Assistant Commissioner's (CI) final approval of a Group I

undercover operation, the request undergoes a number of approvals. First, the field chief and district director approve the undercover operation. It is then forwarded to the regional DI for approval. After the DI's approval, the request is then submitted to SIT where a senior analyst reviews the request and presents the request to a National Undercover Review Committee. This committee includes representatives from IRS Chief Counsel and the Department of Justice, as well as the Chief, SIT and Deputy Director, National Operations Division. The National Undercover Review Committee makes recommendations to the Assistant Commissioner (CI) on whether to approve the request, disapprove the request, or approve the request with conditions. Group II undercover requests follow the same pattern of approval at the field and regional levels. However, the regional DI approves the Group II undercover requests.

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INTERNAL REVENUE SERVICE CRIMINAL INVESTIGATION

# Undercover Operations



**Dark = Group I**

**Light = Group II**

Undercover Operations	FY97	FY98	FY99
Group I	57	42	43
Group II	105	81	65
Total	162	123	108